

**City of Gallatin, Tennessee**  
**Comprehensive Annual Financial Report**  
**June 30, 2006**

**Prepared by: City of Gallatin, Department of Finance**  
**Matt Stewart, Director of Finance**

CITY OF GALLATIN, TENNESSEE  
Comprehensive Annual Financial Report  
June 30, 2006

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## **Introductory Section**

# CITY of GALLATIN

Tennessee 37066



January 30, 2007

IN REPLY REFER TO:

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Gallatin:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Gallatin for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Gallatin. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Gallatin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Gallatin's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Gallatin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, on the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Gallatin's financial statements have been audited by Parker, Parker & Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Gallatin for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gallatin's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Gallatin's MD&A can be found immediately following the report of the independent auditors.

## Profile of the Government

The City of Gallatin, incorporated in 1953, is located in the middle part of Tennessee. The City of Gallatin currently occupies a land area of 25 square miles and serves a population of 23,917. The City of Gallatin is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City of Gallatin has operated under the council-mayor form of government since 1953. Policy-making and legislative authority are vested in a governing council consisting of the mayor and seven councilmen. The governing council is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the government's attorney. The mayor of the City of Gallatin is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a nonpartisan basis. Council members serve four-year staggered terms, with three or four council members elected every two years. The mayor is elected to serve a four-year term. Five of the council members are elected by district. The mayor and the remaining council members are elected at large.

The City of Gallatin provides a full range of services, including police and fire protection; construction and maintenance of streets, and other infrastructure; recreational activities; and cultural events. Utilities are provided by the City's Gallatin Public Utilities (gas, water, and sewer) and Gallatin's Department of Electricity. In addition, the City of Gallatin operates the Long Hollow Golf Course. These comprise the proprietary funds. Other units of general government include environmental services, a drug fund, capital project funds (for development of parks, roads, etc.), cemetery trust fund, and educational loan fund.

The annual budget serves as the foundation for the City of Gallatin's financial planning and control. All agencies of the City of Gallatin are required to submit requests for appropriation to the Finance Director on or before March 15 each year. The Finance Director uses these requests as the starting point for developing a proposed budget. The Finance Director and Mayor then present this proposed budget to the council for review prior to June 1. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. However, transfers of appropriations between departments will require special approval of the governing council. Budget-to-date comparisons are provided in this report for each individual governmental fund for which an annual budget has been adopted by the council. For the general fund, this comparison is presented on page 33-40 as part of the basic financial statements for the governmental funds. For funds (other than the general fund) with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report. Also included are comparisons for the drug fund and environment services fund.

#### Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Gallatin operates.

**Local Economy.** The City of Gallatin currently enjoys favorable economic environment and local indicators point to continued stability and growth. A significant number of new residential developments are underway or planned. The region also has several new retail establishments in the works. A varied manufacturing and industrial base adds to the relative stability of the unemployment rate. Major industries in the area include: clothing distributor; manufacturers of furniture, automobile parts, homes, and stone; commercial printing; local hospital; and local college. The City of Gallatin is within commuting distance to Nashville. Sumner County (which includes the City of Gallatin) employs a labor force of 78,340 with only 4.6% unemployment rate.

**Long-term financial planning.** The governing council has laid out a five year strategic plan to strengthen the city. The City of Gallatin has begun setting funds aside to build a new service center with an estimated total cost of \$1 million. The City continues to develop the Triple Creek Park on the northeast side, with the estimated completion cost at \$1,700,000. This park will include a football complex, adult softball complex, youth softball complex, soccer complex, adult baseball complex, picnic area, playground areas, and a walking path. Already underway is a revitalization and refurbishment plan for the downtown area of the City. The City is developing a long range plan for solid waste disposal as well. Another priority for the City is the development of the storm water drainage program. The next major street to be developed will be the extension of Hancock/Maple Street to Tulip Poplar Drive. The State expects to complete the extension of I386 during 2007; the interstate will allow citizens to go from Gallatin's bypass all the way to Nashville.

**Cash Management Policies and Practices.** Cash temporarily idle during the year was invested mainly in Green County Bank. Other amounts were invested in longer term government securities. The City maintains a minimum amounts in other local banks to cover current expenditures and bond payments for the current period.

**Risk Management.** The City of Gallatin reduces its exposure by maintaining a worker's compensation insurance policy for all employees through Tennessee Municipal League. The safety committee requires post accident drug screens, reviews all accidents weaknesses in safety, and conducts work site inspections. Likewise, the City maintains an insurance policy to cover all major incidents. The City of Gallatin continues to maintain \$150,000 reserve to cover deductibles in the event of a major disaster.

Pension and other post employment benefits. The City of Gallatin offers a 401K retirement program to its employees. The City contributes 5% of the employees' salary and matches up to an additional 4%. The plan is maintained by a third party and funded by the City on a timely basis. The City of Gallatin offers retiring employees a portion of their unused sick leave balance, depending on age and length of service.

#### Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the City of Gallatin for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Gallatin finances.

Respectfully submitted,

Matthew S. Stewart  
Finance Director

Eve Kim  
Deputy Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gallatin  
Tennessee

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

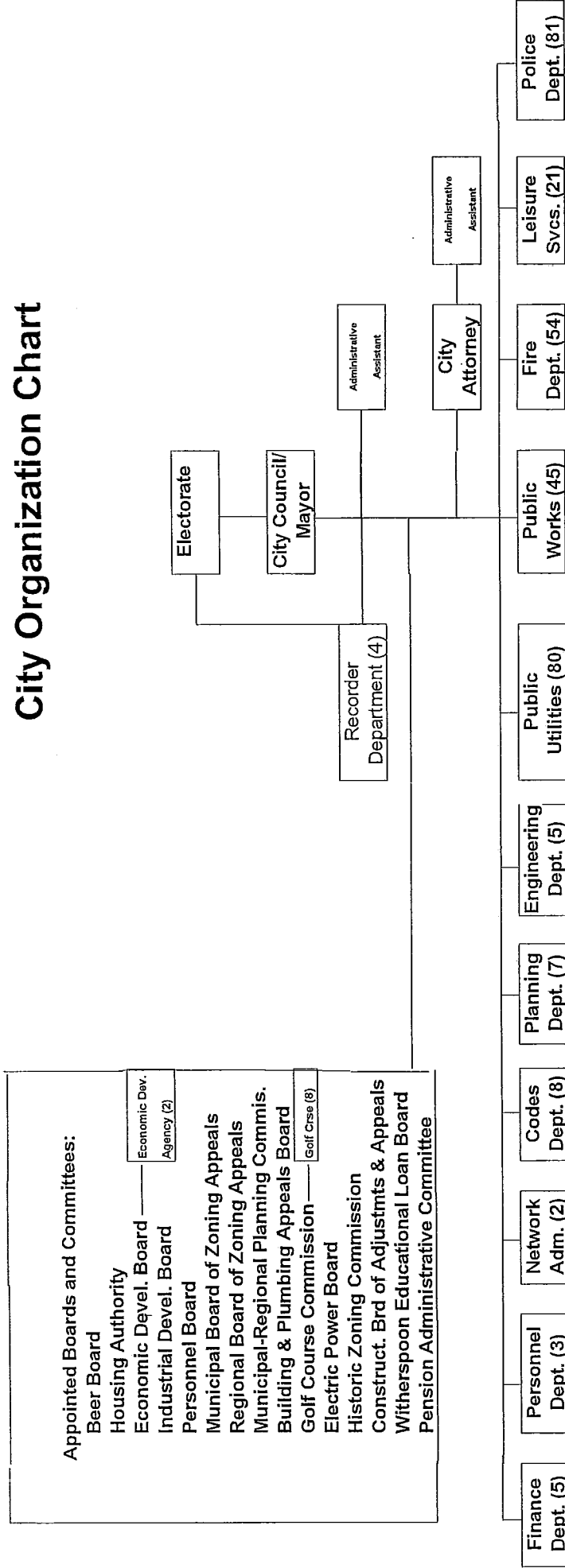


President

Executive Director

# CITY OF GALLATIN, TENNESSEE

## City Organization Chart



See attached breakdown





**CITY OF GALLATIN, TENNESSEE**  
**City Officials**  
**June 30, 2006**

**Elected Officials**

**City council**

Mayor.....	Don Wright
Council Member.....	Dr. J. Deotha Malone
Council Member.....	Anne Kemp
Council Member.....	Craig Hayes
Council Member.....	Ed Mayberry
Council Member.....	Dale Bennett
Council Member.....	John D. Alexander
Council Member.....	Joseph Garrett
Recorder.....	Connie Kittrell

**Officers Appointed by City Council**

Director of Finance.....	Matt Stewart
Director of Public Works.....	Ronnie Stiles
Superintendent of Public Utilities.....	David A Gregory
Chief of Police.....	John Tisdale
Fire Chief.....	Joe M. Womack
City Planner.....	Jim Svoboda
Director of Leisure Services.....	David Brown
Personnel Official.....	Dave Crawford
Director of Economic Development.....	Clay Walker
Building Official.....	Elaine Nichols
City Engineer.....	Ron Coleman

**Operating Manager**

Electric Department Manager.....	William Draper
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**Other Key Personnel**

Deputy Director of Finance.....	Eve Kim
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## **Financial Section**

# Parker, Parker & Associates, PLC

Certified Public Accountants

1000 NORTHCHASE DRIVE - SUITE 260  
GOODLETTSVILLE, TN 37072

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## Independent Auditors' Report

To the Honorable City Council and Mayor  
City of Gallatin, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gallatin, Tennessee (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Gallatin, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gallatin, Tennessee, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2006, on our consideration of the City of Gallatin, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information on pages 2 through 10 and 32 through 40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gallatin, Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 18, 2006

*Parker, Parker & Associates*

## Management's Discussion and Analysis

As management of the City of Gallatin, Tennessee (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. The analysis focuses on significant financial position, budget changes and specific issues related to funds and the economic factors affecting the City.

Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes. Please consider the information presented here in conjunction with our Letter of Transmittal (Page A)

### Financial Highlights:

- The assets of the City of Gallatin exceeded its liabilities at the close of the most recent fiscal year by \$138,874,898 as compared to \$124,272,970 in the prior year. Of these amounts, \$29,355,321 (unrestricted net assets) as compared to \$26,012,180 in 2005 may be used to meet the government's ongoing obligations.
- The governments total net assets increased by \$14,631,056 in 2006 and \$8,795,938 in 2005.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,267,146, a decrease of \$960,365, net of prior period adjustments in comparison to the prior year. Approximately \$9,235,919 of that total is available for spending at the government's discretion although \$2,982,877 is designated for capital projects and \$3,493,148 is designated as the "Rainy Day" fund which requires a 2/3's majority vote of Council to appropriate.
- At the end of the current fiscal year, unreserved fund balance of the General Fund was \$8,285,392 or 43% of total general fund expenditures as compared to \$8,520,488 and 51% respectively for the prior year.
- the City's total debt decreased by \$1,668,128 (10%) during the current fiscal year. The decreases resulted from scheduled debt repayments for the fiscal period.

### Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Gallatin's basic financial statements. The City's basic financial statements comprise three components: (1) government -wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The Government -wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Overall, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected tax and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover costs through user fees and charges (business-type activities). The governmental activities of the City of Gallatin include general government, public safety, highways and streets, sanitation, economic development, and cultural and recreation. The business-type activities include Water and Sewer, Natural Gas, Golf course and Electric Power services.

The government - wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gallatin, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds, proprietary funds.

Governmental Funds. Governmental Funds are funds used to account for essentially the same functions reported as governmental activities in the government - wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near - term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near - term financing requirements

Because the focus of governmental funds is narrower than that of the government - wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government - wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 13-14 of this report.

The City of Gallatin, Tennessee adopts an annual appropriated budget for its general fund. A budgetary comparison statement and related notes has been provided for the general fund to demonstrate compliance with this budget on pg 33-39.

Proprietary Funds. The City of Gallatin maintains only one type of proprietary fund. Its enterprise funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water/Sewer, Natural Gas, Electric Power and Golf Course operations.

Proprietary funds provide the same type of information as the government - wide financial statements, only in more detail. The proprietary fund financial statements provide information for Water and Sewer, Natural Gas and Electric Power operations and its Golf Course activity each of which are considered to be a major funds.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government - wide and fund financial statements. The notes to the financial statements can be found starting on page 19 of this report.

The combining statements referred to earlier in connection with non major governmental funds are presented immediately following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 16-18 and 41-42 of this report.

## **Financial Analysis of the Financial Statements**

### Government - wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Gallatin, assets exceeded liabilities by \$138,874,898 at the close of the most recent fiscal year, as compared to \$124,272,970 at the close of the previous fiscal year.

By far the largest portion of the City's net assets (73%) reflects its investment in capital assets (e.g., land , buildings, machinery, and equipment), less any related debt that is still outstanding. The City uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### **City of Gallatin's Net Assets**

	<b>Governmental Activities</b>		<b>Business -type Activities</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Current and other assets	\$ 18,231,600	16,912,165	27,701,413	30,079,458
Capital assets	33,933,306	30,291,012	87,341,961	72,902,836
Total assets	52,164,906	47,203,177	115,043,374	102,982,294
Long-term liabilities outstanding	4,164,291	3,250,042	9,959,064	8,177,790
Other liabilities	8,317,964	7,790,945	5,892,062	6,693,723
Total liabilities	12,482,255	11,040,987	15,851,126	14,871,513
Net assets:				
Capital assets, net of related debt	30,858,306	26,282,195	78,646,271	71,055,638
Restricted	15,000	922,957	0	0
Unrestricted	8,809,345	8,957,037	20,545,976	17,055,143
Total net assets	\$ 39,682,651	36,162,189	99,192,247	88,110,781

The city's unrestricted net assets totals \$29,355,321 and may be used to meet the government's ongoing obligations to citizens and creditors as compared to \$26,012,180 in 2005.

At the end of the current fiscal year, the City is able to report positive balances in all three category of net assets, both for the government as a whole, as well as for its separate governmental and business - type activities.

The government's net assets increased by \$14,631,056 during the current fiscal year. Approximately 78% of this increase represents the net increase in net assets from the Enterprise Funds, a significant portion of this increase is attributed to capital assets contributed by developers an others in the aggregate amounts of \$7,931,282.

Governmental Activities

Governmental activities increased the City's net assets by \$3,549,591 during the current fiscal year as compared to an increase of \$1,807,106 during the previous fiscal year. Key elements of this increase are summarized below:

**City of Gallatin's Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business -type Activities</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenues:				
Program revenues:				
Charges for services	\$ 2,950,614	2,751,837	75,920,294	64,316,071
Operating grants and contributions	636,779	869,005	0	0
Capital grants and contributions	1,642,282	1,722,591	7,931,282	2,800,442
General revenues:				
Property taxes	6,354,160	5,987,978	0	0
Sales taxes	4,673,907	4,154,177	0	0
Other local taxes	1,416,875	1,409,098	0	0
State shared taxes	2,640,260	1,896,131	0	0
Other	1,274,601	284,436	890,966	455,739
Total revenues	<u>21,589,478</u>	<u>19,075,253</u>	<u>84,742,542</u>	<u>67,572,252</u>
Expenses:				
General government				
General Government Administration	3,244,668	3,334,894	0	0
Public safety:	7,710,413	6,756,172	0	0
Animal control	42,050	40,235	0	0
Highways and streets	1,677,828	1,669,388	0	0
Public works	156,392	138,488	0	0
Environmental Services	2,132,344	1,918,049	0	0
Parks and recreation	2,579,035	2,404,761	0	0
Engineering	521,482	413,530	0	0
Community services	182,296	195,591	0	0
Economic Development	202,705	0	0	0
Vehicle maintenance	311,944	302,551	0	0
Interest expense on long-term debt	105,638	94,489	0	0
Water & Sewer	0	0	6,444,961	5,842,660
Natural Gas	0	0	23,127,731	16,953,730
Electric Power	0	0	42,349,573	36,874,016
Golf Course	0	0	911,903	913,014
Total expenses	<u>18,866,796</u>	<u>17,268,148</u>	<u>72,834,168</u>	<u>60,583,420</u>
Increases in net assets before Trar	2,722,682	1,807,105	11,908,374	6,988,832
Transfers	826,908	846,667	-826,908	-846,667
Net assets, beginning of year Restated	<u>36,133,060</u>	<u>33,508,416</u>	<u>88,110,781</u>	<u>81,968,616</u>
Net assets, end of year	<u>\$ 39,682,650</u>	<u>36,162,188</u>	<u>99,192,247</u>	<u>88,110,781</u>

The most significant increase in actual continued revenue sources was derived from Taxes. Tax revenues are primarily a combination of two distinct resources; property tax and local option tax. Property taxes increased \$366,182 in 2006 as compared to \$263,745 in 2005, local option sales tax showing an increase of \$519,730 as compared to \$1,278,102 in 2005. The increases of both taxes is largely attributed to the continued growth of commercial and residential properties in the area. The restoration of certain state shared taxes resulted in a \$744,129 increase.

Other revenues remained relatively stable with no significant deviations from those of the prior year.

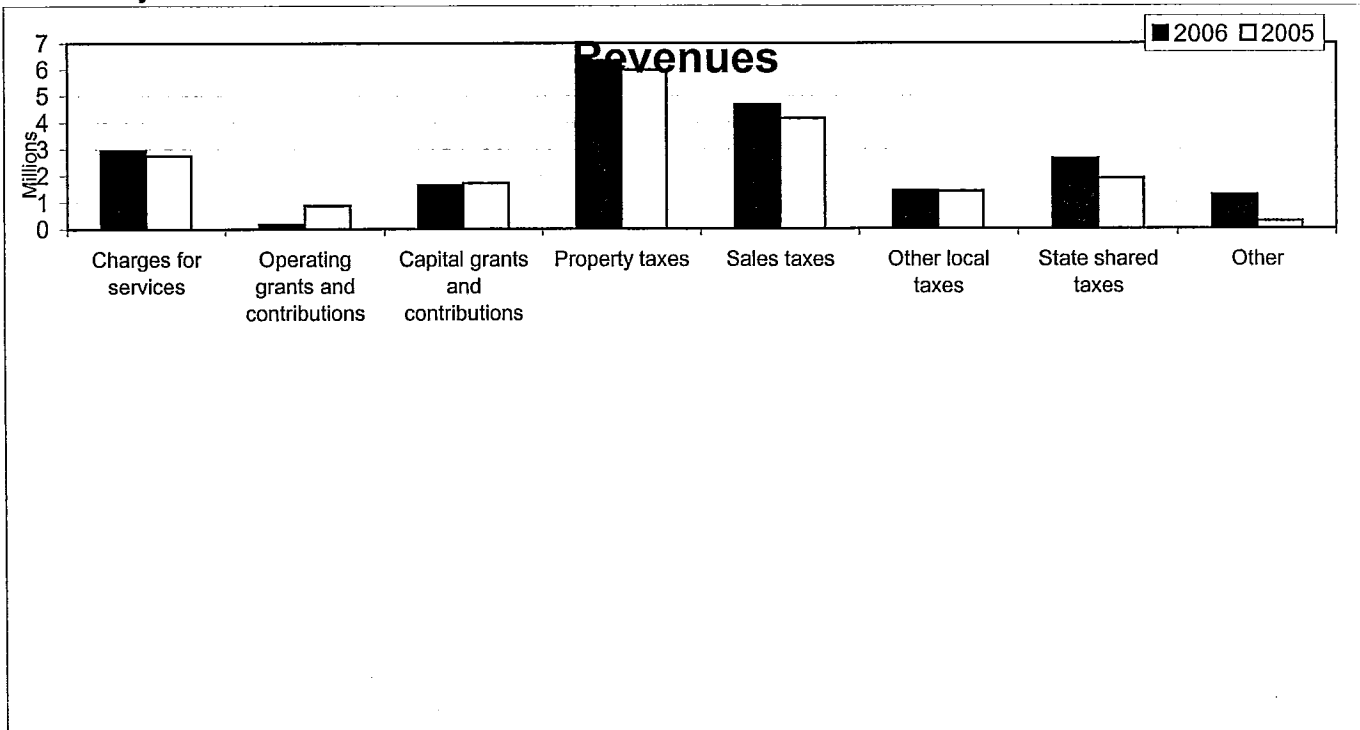


## Management's Discussion and Analysis

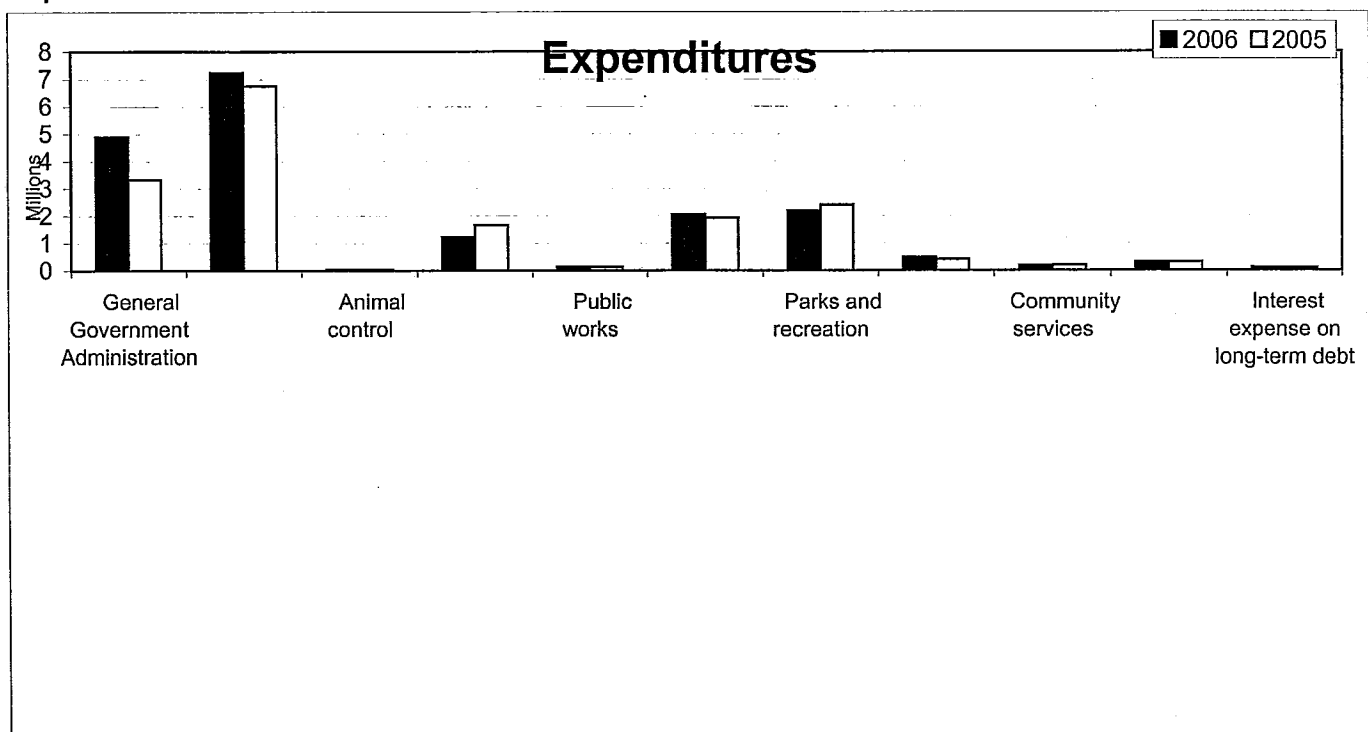
Governmental policy continues to recognize that local revenue sources must be the foundation for providing basic public services rather than depending on uncertain Federal and State sources. To this end, it is vitally important to continue efforts to seek balanced diversity, equity, and efficiency in local revenue systems to better accommodate future change.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The most significant increases in expenditures over those of the prior year occurred in the general government category with capital projects accounting for a significant portion of this increase.

### Revenues by Source - Governmental Activities



### Expenditures - Governmental Activities

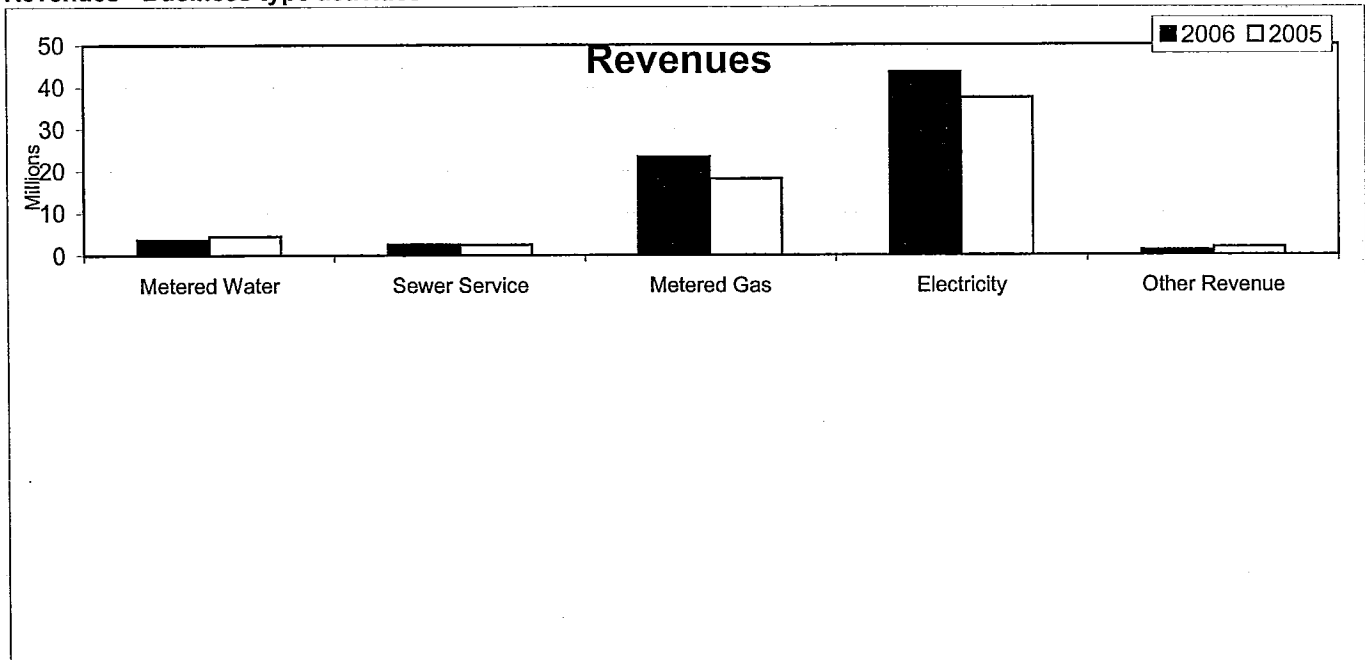


**Business - type activities**

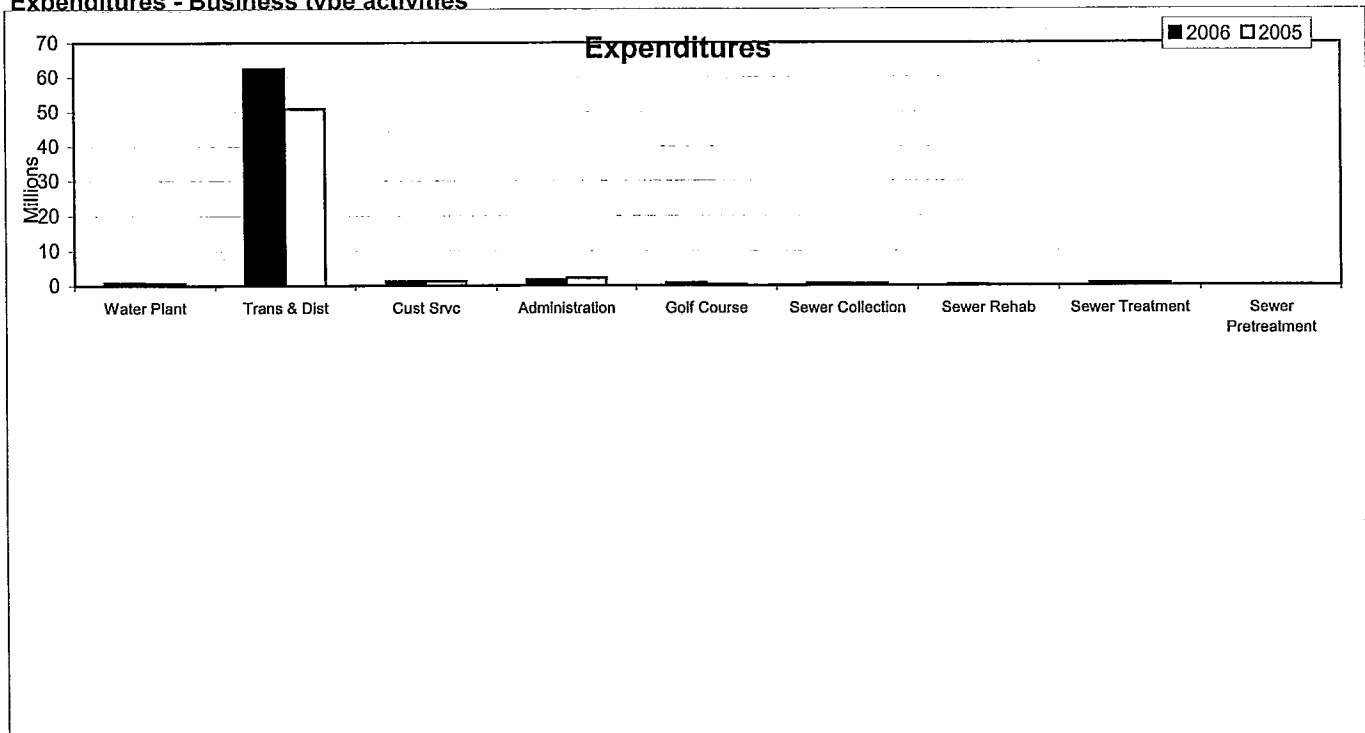
Business - type activities increased the City's net assets by \$11,081,465 accounting for 78% of the total growth in the government's net assets as compared to \$6,142,165 in 2005. Key elements of this increase are as follows:

- Water and Sewer Department received \$6,629,117 of capital improvements donated by developers and \$821,194 in tap fees.
- Additions to net assets for the Water & Sewer, Natural Gas, and Power System for 2006 amounted to \$8,485,897, \$470,130, and \$2,324,142 respectively.

**Revenues - Business type activities**



**Expenditures - Business type activities**



**Governmental Funds**

The focus of the City of Gallatin's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements, in particular, unreserved fund balance may serve as a useful measure to a government's net resources available for spending at the end of the year.

The general fund is the chief operation fund of the City of Gallatin, Tennessee. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,270,705 while total fund balance reached \$8,285,392. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 43% of total general fund expenditures as compared to 51% last year.

The fund balance of the City's general fund decreased by \$990,641 during the current fiscal year. Key factors in this decline are as follows:

- Operating expenses, debt service, and capital outlay exceeded total revenues by \$1,153,632.
- There were capital outlay expenses during FY2006 for projects approved and funded in prior years.
- A transfer of \$1,358,603 from the General Fund to the Environmental Services Fund to subsidize the sanitation fund.
- A prior period adjustment increasing fund balance by \$121,181.
- Management's decision to execute certain capital projects using undesignated reserve funds, rather than issue debt.

The City's proprietary (enterprise) funds provide the same type of information found in the government - wide financial statement but in more detail.

Unrestricted net assets of the Enterprise Funds amounted to \$20,545,976 as compared to \$12,195,960 in the prior year.

The growth in net assets of the individual enterprise funds was as follows:

	<b>2006</b>	<b>2005</b>
Water & Sewer Fund	\$ 8,288,485	4,896,813
Natural Gas Fund	4,687,404	5,667,932
Golf Course Fund	-808,097	-613,869
Electric Power Fund	8,378,184	7,104,267
- Additions to net assets for the Water & Sewer, Natural Gas, and Power System for 2006 amounted to		
	\$8,485,897, \$470,130, and \$2,324,142, respectively.	

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were an overall increase in appropriations by \$1,772,144 and can be briefly summarized as follows:

	<b>Budgeted Amounts (Operating)</b>		<b>Budgeted Amounts (Capital)</b>	
	Original	Final	Original	Final
General Government	3,053,745	3,138,879	586,140	888,971
Police Department	4,036,498	4,331,677	397,581	432,812
Fire Department	2,543,741	2,731,870	1,369,303	1,452,885
Animal Control	43,822	45,511	-	-
Highways and Streets	1,206,554	1,231,459	174,861	471,719
Public Works	128,684	136,564	546,719	553,180
Parks and Recreation	2,075,657	2,183,257	964,877	964,877
Engineering	290,481	309,873	2,026,336	2,301,560
Community Services	157,500	189,750	-	-
Vehicle Maintenance	338,638	348,437	-	-
Contingencies	-	-	(46,719)	35,278
Debt Service	877,245	877,245	-	-
Total Expenditures	14,752,565	15,524,522	6,019,098	7,101,282

## Capital Asset and Debt Administration

### Capital Assets

The City of Gallatin's investment in capital assets from its governmental and business - type activities as of June 30, 2006, amounts to \$121,275,267 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 17.5% (a 12% increase for governmental activities and a 19.8% increase for business - type activities).

### City of Gallatin's Capital Assets

	Governmental Activities	Business -type Activities	Total
Land	\$ 3,359,248	1,665,532	5,024,780
Buildings and utility plant	10,408,162	119,893,212	130,301,374
Improvements other than buildings	3,106,943	0	3,106,943
Equipment and furniture	10,237,596	4,783,500	15,021,096
Construction in progress	0	8,176,994	8,176,994
Infrastructure	21,585,791	0	21,585,791
	<u>48,697,740</u>	<u>134,519,238</u>	<u>183,216,978</u>
Less accumulated depreciation	<u>14,764,434</u>	<u>47,177,277</u>	<u>61,941,711</u>
Net Capital Assets	<u>\$ 33,933,306</u>	<u>87,341,961</u>	<u>121,275,267</u>

Additional information on the City of Gallatin's capital assets can be found in the notes to the financial statements section of this report.

### Long - Term Debt

At the end of the current year, the City of Gallatin had bonded debt outstanding of \$11,860,000 as compared to \$13,155,000 at the end of the prior fiscal year. Of this amount, \$3,415,000 represents debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured by both the taxing power of the City and specific revenue sources (i.e. revenue and tax bonds) of the various enterprise funds.

### City of Gallatin's Outstanding Debt

	Governmental Activities	Business -type Activities	Total
General obligation bonds and capital outlay notes	\$ 3,415,000	0	3,415,000
Revenue and tax bonds	<u>0</u>	<u>8,445,000</u>	<u>8,445,000</u>
Total	<u>\$ 3,415,000</u>	<u>8,445,000</u>	<u>11,860,000</u>

The City of Gallatin and its various agencies both maintain a "A1" rating from Moody's for general obligation debt.

Additional information on the City's debt can be found in the notes to the financial statements section of this report.

## **Economic Factors and Next Year's Budget and Rates**

The unemployment rate for the City of Gallatin is currently 4.8%, which is an increase from a rate of 4.2% a year ago. This compares to the State's average unemployment rate of 5.6% and the national average rate of 4.6%.

### The General Fund Revenue:

- The City continues to see increases in high-end residential development as well as a significant influx of new commercial development. The impact of these growth areas is reflected in the projected increases in property taxes, local option sales taxes, licenses and permits, and certain retail-related state shared taxes.
- The property tax rate was adjusted in 2006 to exceed the certified rate, contributing to an increase of \$1,225,767 in property tax as compared to the previous year.
- Local law enforcement continues to be more effective and efforts have caused an increase in the fines and fees revenue budget of approximately \$243,000.

### General Fund Expenditures and Capital Outlay:

- All departments were instructed to present budgets to fund only the basic requirements.
- Original operating expense budgets totaled \$17,971,992 as compared to \$16,050,614 for the prior fiscal year, representing an increase of 12%.
- The monthly service fees in the Environmental Services fund were raised resulting in a decrease in the related General Fund expense budget in the amount of \$751,013.
- Salaries and related personnel costs were increased in relation to an addition of 31 employee positions.

At the end of the current fiscal year, unreserved fund balance in the general fund was \$8,270,705. The City did not appropriate any of this amount for spending in the 2007 fiscal year budget.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Gallatin Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Department of Finance  
City of Gallatin  
Gallatin, TN

**CITY OF GALLATIN, TENNESSEE**  
**Statement of Net Assets**  
**June 30, 2006**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Industrial Development</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents - Unrestricted	\$ 6,159,726	\$ 15,777,563	\$ 21,937,288	\$ 8,496
Receivables:				
Property Taxes	8,051,438	-	8,051,438	-
Intergovernmental	1,563,024	-	1,563,024	-
Customers, Net of Allowance and Other	723,963	4,632,027	5,355,990	-
Total Receivables	10,338,425	4,632,027	14,970,452	-
Investments	746,105	4,071,338	4,817,443	-
Inventory	16,227	2,683,705	2,699,933	-
Prepays and Other Current Expenses	-	244,219	244,219	-
Internal Balances	767,171	(767,171)	-	-
Total Current Assets	18,027,653	26,641,682	44,669,335	8,496
<b>CAPITAL ASSETS</b>				
Depreciable Capital Assets, Net of Accumulated Depreciation	30,574,058	77,499,435	108,073,493	-
Non Depreciable Capital Assets	3,359,248	9,842,526	13,201,774	-
Total Capital Assets	33,933,306	87,341,961	121,275,267	-
<b>OTHER ASSETS</b>				
Cash and Cash Equivalents - Restricted	-	7,094	7,094	-
Unamortized Costs	203,947	303,672	507,619	-
Receivable - TVA Residential Energy Service Program	-	650,000	650,000	-
Deposits and Other	-	98,965	98,965	-
Total Other Assets	203,947	1,059,731	1,263,678	-
Total Assets	\$ 52,164,906	\$ 115,043,373	\$ 167,208,280	\$ 8,496
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 320,420	\$ 5,387,137	\$ 5,707,557	\$ -
Accrued Liabilities	431,393	364,579	795,971	-
Accrued Interest	40,385	140,346	180,731	-
Deferred Revenue	7,525,767	-	7,525,767	-
Long-term Liabilities:	-			
Customer Deposits	-	980,799	980,799	-
Other Liabilities	-	76,155	76,155	-
Due Within One Year	1,524,291	1,002,110	2,526,401	-
Due in More Than One Year	2,640,000	7,900,000	10,540,000	-
Total Liabilities	12,482,256	15,851,126	28,333,382	-
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	30,858,306	78,646,271	109,504,577	-
Restricted for:				
Endowment	15,000	-	15,000	-
Unrestricted	8,809,345	20,545,976	29,355,321	8,496
Total Net Assets	39,682,651	99,192,247	138,874,898	8,496
Total Liabilities and Net Assets	\$ 52,164,906	\$ 115,043,373	\$ 167,208,280	\$ 8,496

See auditors' report and notes to the financial statements.

CITY OF GALLATIN, TENNESSEE  
Statement of Activities  
For the Year Ended June 30, 2006

Functions/Programs: Primary government: Governmental Activities:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating		Primary Government		Industrial Development Board	
			Contributions	Grants and Contributions	Governmental Activities	Business-type Activities		
General Government	\$ 3,244,668	\$ 134,147	\$ 561,795	\$ 416,354	\$ (2,132,372)	\$ -	\$ (2,132,372)	\$ -
Public Safety	7,710,413	982,463	74,985	-	(6,652,966)	-	(6,652,966)	-
Animal Control	42,050	-	-	-	(42,050)	-	(42,050)	-
Highways, Streets and Roadways	1,677,828	70,682	-	1,225,928	(381,218)	-	(381,218)	-
Public Works	156,392	13,204	-	-	(143,188)	-	(143,188)	-
Environmental Services	2,132,344	498,660	-	-	(1,633,684)	-	(1,633,684)	-
Parks and Recreation	2,579,035	600,004	-	-	(1,979,031)	-	(1,979,031)	-
Engineering	521,482	530,989	-	-	9,506	-	9,506	-
Community Services	182,296	-	-	-	(182,296)	-	(182,296)	-
Economic Development	202,705	-	-	-	(202,705)	-	(202,705)	-
Vehicle Maintenance	311,944	120,466	-	-	(191,478)	-	(191,478)	-
Interest on Long-term Debt	105,638	-	-	-	(105,638)	-	(105,638)	-
Total Governmental Activities	18,866,796	2,950,614	636,779	1,642,282	(13,637,121)	-	(13,637,121)	-
Business-type Activities:								
Electric Power	42,349,573	44,282,807	-	480,971	-	2,414,205	2,414,205	-
Gas	23,127,731	23,671,087	-	-	-	543,356	543,356	-
Golf	911,903	709,746	-	-	-	(202,157)	(202,157)	-
Water and Sewer	6,444,961	7,256,654	-	7,450,311	-	8,262,004	8,262,004	-
Total Business-type Activities	72,834,168	75,920,294	-	7,931,282	-	11,017,408	11,017,408	-
Total Primary Government	\$ 91,700,964	\$ 78,870,909	\$ 636,779	\$ 9,573,563	\$ (13,637,121)	\$ 11,017,408	\$ (2,619,712)	\$ -
Component Unit:								
Industrial Development Board	\$ 16,022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16,022)
General Revenues:								
Property and Personality Taxes	\$ 6,354,160	\$ -	\$ -	\$ 6,354,160	\$ -	\$ -	\$ 6,354,160	\$ -
Payment in Lieu of Tax	201,091	-	-	201,091	-	-	201,091	-
Income and Excise Taxes	220,822	-	-	220,822	-	-	220,822	-
Sales Taxes	6,154,339	-	-	6,154,339	-	-	6,154,339	-
Gasoline Tax	665,593	-	-	665,593	-	-	665,593	-
Alcoholic Beverage Taxes	875,523	-	-	875,523	-	-	875,523	-
Business Taxes	388,283	-	-	388,283	-	-	388,283	-
Hospitality Taxes	248,792	-	-	248,792	-	-	248,792	-
Miscellaneous State Taxes	8,970	-	-	8,970	-	-	8,970	-
Unrestricted Investment Income	234,794	-	-	234,794	876,518	1,111,311	1,111,311	75
Rental Income	590,320	-	-	590,320	-	-	590,320	-
Sale of Capital Assets	323,677	-	-	323,677	14,447	338,125	338,125	-
Miscellaneous	93,441	-	-	93,441	-	-	93,441	-
Transfers, Net	826,908	-	-	826,908	(826,908)	-	-	-
Total General Revenues and Transfers	17,186,711	-	-	17,186,711	64,057	17,250,769	17,250,769	75
Change in Net Assets					3,549,591	11,081,465	14,631,056	(15,947)
Net Assets - July 1, 2005					36,162,189	88,110,782	124,272,971	24,443
Prior Period Adjustments					(29,128)	-	(29,128)	-
Net Assets - June 30, 2006					\$ 39,662,651	\$ 99,192,247	\$ 138,874,898	\$ 8,496

See auditors' report and notes to the financial statements.

CITY OF GALLATIN, TENNESSEE  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General Fund	Environmental Services Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and Cash Equivalents	\$ 5,229,003	\$ 59,703	\$ 871,020	\$ 6,159,726
Receivables, Net:				
Property Taxes	8,051,438	-	-	8,051,438
Intergovernmental	1,093,299	-	-	1,093,299
Other	778	266,278	456,907	723,963
Due From Other Funds	1,274,397	7,939	-	1,282,335
Investments	746,105	-	-	746,105
Inventory	14,687	1,541	-	16,227
<b>Total Assets</b>	<b>\$ 16,409,706</b>	<b>\$ 335,460</b>	<b>\$ 1,327,927</b>	<b>\$ 18,073,093</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 11,086	\$ 290,145	\$ 19,189	320,420
Accrued Liabilities	385,307	22,789	36,500	444,596
Due To Other Funds	202,155	-	313,010	515,165
Deferred Revenue	7,525,767	-	-	7,525,767
<b>Total Liabilities</b>	<b>8,124,315</b>	<b>312,935</b>	<b>368,698</b>	<b>8,805,948</b>
<b>Fund Balances:</b>				
Reserved For:				
Inventory	14,687	1,541	-	16,227
Endowments	-	-	15,000	15,000
Unreserved Reported in Non-Major:				
Special Revenue Funds	-	-	174,246	174,246
Capital Projects Funds	-	-	472,836	472,836
Permanent Funds	-	-	297,147	297,147
Unreserved: Designated For:				
Capital Projects	2,982,877	-	-	2,982,877
Other Designated	3,493,148	-	-	3,493,148
Unreserved	1,794,680	20,985	-	1,815,665
<b>Total Fund Balances</b>	<b>8,285,392</b>	<b>22,526</b>	<b>959,228</b>	<b>9,267,146</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 16,409,706</b>	<b>\$ 335,460</b>	<b>\$ 1,327,927</b>	<b>\$ 18,073,093</b>

CITY OF GALLATIN, TENNESSEE  
Reconciliation of the Balance Sheet to the Statement of Net Assets of Governmental Activities  
June 30, 2006

Total Governmental Fund Balances	\$ 9,267,146
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Some assets, including accounts receivable are not available in the current period and therefore are not reported in the funds.	469,725
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	33,933,306
Other long-term assets (bond costs) are not available to pay for current-period expenditures and, therefore are deferred in the funds.	203,947
Some liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(4,191,473)
<b>Net Assets of the Governmental Activities</b>	<b>\$ 39,682,651</b>



**CITY OF GALLATIN, TENNESSEE**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>General</b>	<b>Environmental Services Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Taxes	\$ 12,472,166	\$ -	\$ -	\$ 12,472,166
Licenses and Permits	529,282	-	-	529,282
Fines and Forfeitures	830,657	-	135,356	966,013
Charges for Services	956,660	498,660	-	1,455,320
Intergovernmental	3,136,744	-	-	3,136,744
Investment Income	207,782	-	27,012	234,794
Rental/Property Income	86,860	-	503,460	590,320
Miscellaneous Revenues	50,454	42,557	430	93,441
Total Revenues	<u>18,270,604</u>	<u>541,217</u>	<u>666,258</u>	<u>19,478,079</u>
<b>Expenditures</b>				
Current:				
General Government	3,028,811	-	-	3,028,811
Public Safety	7,113,058	-	-	7,113,058
Animal Control	42,050	-	-	42,050
Highways, Streets and Roadways	1,227,775	-	-	1,227,775
Public Works	139,229	-	-	139,229
Environmental Services	-	2,055,365	-	2,055,365
Parks and Recreation	2,183,941	-	-	2,183,941
Engineering	482,915	-	-	482,915
Community Services	182,296	-	-	182,296
Economic Development	198,999	-	-	198,999
Vehicle Maintenance	311,705	-	-	311,705
Other Program Costs	-	-	125,960	125,960
Debt Service:				
Principal	760,000	-	-	760,000
Interest	117,245	-	-	117,245
Capital Outlay	3,636,212	96,717	100,000	3,832,929
Total Expenditures	<u>19,424,236</u>	<u>2,152,082</u>	<u>225,960</u>	<u>21,802,279</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,153,633)</u>	<u>(1,610,865)</u>	<u>440,298</u>	<u>(2,324,200)</u>
<b>Other Financing Sources (Uses)</b>				
Contributions	92,070	-	-	92,070
Insurance Proceeds	77,410	246,267	-	323,677
Operating Transfers In (Out)	(127,669)	1,358,603	(404,027)	826,907
Total Other Financing Sources (Uses)	<u>41,811</u>	<u>1,604,870</u>	<u>(404,027)</u>	<u>1,242,654</u>
<b>Net Change in Fund Balances</b>	<u>(1,111,822)</u>	<u>(5,995)</u>	<u>36,271</u>	<u>(1,081,546)</u>
<b>Fund Balances - July 1, 2005</b>	<u>9,276,034</u>	<u>28,520</u>	<u>922,957</u>	<u>10,227,512</u>
<b>Prior Period Adjustment</b>	<u>121,181</u>	<u>-</u>	<u>-</u>	<u>121,181</u>
<b>Fund Balances - June 30, 2006</b>	<u>\$ 8,285,392</u>	<u>\$ 22,526</u>	<u>\$ 959,228</u>	<u>\$ 9,267,146</u>

See auditors' report and notes to the financial statements.

**CITY OF GALLATIN, TENNESSEE**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2006**

Net change in fund balances - total governmental funds \$ (1,081,546)

Amounts reported for governmental activities in the statement of activities are different from the amounts reported for governmental funds in the statement of revenues, expenditures and changes in fund balances because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. 2,198,737

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,695,653

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 760,000

Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds. (23,254)

Change in net assets of governmental activities \$ 3,549,591

CITY OF GALLATIN, TENNESSEE  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

	Business-type Activities - Enterprise Funds					Total
	Electric Fund	Gas Fund	Golf Course	Water & Sewer Fund	Proprietary Funds	
<b>Assets</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents - Unrestricted	\$ 5,426,689	\$ 3,086,332	\$ 6,220	\$ 7,258,321	\$ 15,777,563	
Receivables, net	3,374,108	885,392	-	372,527	4,632,027	
Due From Other Funds	-	12,377	148,525	33,315	194,216	
Inventory	682,707	1,798,668	28,533	173,798	2,683,705	
Prepaid and Other Current Expenses	198,146	-	-	46,073	244,219	
Total Current Assets	9,681,650	5,782,769	183,278	7,884,034	23,531,731	
<b>Capital Assets</b>						
Non-depreciable Capital Assets:						
Land, Right of Ways, Usages	282,534	68,403	721,594	593,001	1,665,532	
Construction in Progress	536,015	1,234,592	-	6,406,387	8,176,994	
Depreciable Capital Assets:						
Plant and Equipment	25,474,036	22,116,715	1,679,839	75,406,122	124,676,712	
Less Accumulated Depreciation	(10,773,703)	(7,935,325)	(1,334,254)	(27,233,995)	(47,177,277)	
Total Capital Assets	15,518,882	15,584,385	1,067,179	55,171,515	87,341,961	
<b>Other Assets</b>						
Cash and Cash Equivalents - Restricted	7,094	-	-	-	7,094	
Investments	3,074,148	-	-	997,190	4,071,338	
Unamortized Costs	-	-	-	303,672	303,672	
Receivable - TVA Residential Energy Service Program	650,000	-	-	-	650,000	
Deposits and Other	97,465	-	1,500	-	98,965	
Total Other Assets	3,828,707	-	1,500	1,300,862	5,131,069	
Total Assets	\$ 29,029,239	\$ 21,367,154	\$ 1,251,957	\$ 64,356,411	\$ 116,004,760	
<b>Liabilities and Fund Equity</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 3,897,075	\$ 980,820	\$ -	\$ 509,242	\$ 5,387,137	
Accrued Liabilities	293,313	14,739	16,345	40,181	364,579	
Accrued Interest	7,101	-	-	133,245	140,346	
Deferred Revenue	-	-	-	-	-	
Current Portion of Notes and Bonds Payable	-	-	-	545,000	545,000	
Due to Other Funds	-	-	961,387	-	961,387	
Total Current Liabilities	4,197,489	995,560	977,732	1,227,668	7,398,449	
Customer deposits and Other Liabilities						
Advances - TVA Residential Energy Services Program	955,388	14,411	-	11,000	980,799	
Compensated Absences	76,155	-	-	-	76,155	
Notes and Bonds Payable	153,831	85,394	15,143	202,742	457,110	
Total Long-Term Liabilities	1,185,374	99,805	15,143	8,113,742	9,414,065	
Total Liabilities	5,382,863	1,095,365	992,875	9,341,410	16,812,513	
<b>Net Assets</b>						
Unrestricted	8,378,184	4,687,404	(808,097)	8,288,485	20,545,976	
Invested in Capital Assets, Net of						
Related Debt	15,268,192	15,584,385	1,067,179	46,726,515	78,646,271	
Total Net Assets	23,646,376	20,271,789	259,082	55,015,000	99,192,247	
Total Liabilities and Net Assets	\$ 29,029,239	\$ 21,367,154	\$ 1,251,957	\$ 64,356,411	\$ 116,004,760	

See auditors' report and notes to the financial statements.

**CITY OF GALLATIN, TENNESSEE**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the year ended June 30, 2006**

	Business-type Activities - Enterprise Funds				Total
	Electric Fund	Gas Fund	Golf Course	Water & Sewer Fund	Proprietary Funds
<b>Operating Revenues</b>					
Charges for Services	\$ 43,600,155	\$ 23,512,926	\$ 548,292	\$ 7,133,277	\$ 74,794,650
Late Payment Charges/Forfeited Discounts	188,118	143,404	-	111,990	423,512
Other Revenues from Operations	514,534	14,758	161,454	11,386	702,132
<b>Total Operating Revenues</b>	<b>44,282,807</b>	<b>23,671,087</b>	<b>709,746</b>	<b>7,256,654</b>	<b>75,920,294</b>
<b>Operating Expenses</b>					
Water Plant	-	-	-	832,938	832,938
Transmission and Distribution	39,794,975	21,977,932	-	720,341	62,493,248
Customer Service and Collection	542,110	207,082	-	532,481	1,281,653
General Administration	643,123	351,746	38,475	551,612	1,584,956
Golf Course Operating Expenses	-	-	801,605	-	801,605
Sewer Collection	-	-	-	570,934	570,934
Sewer System Rehab	-	-	-	222,092	222,092
Sewer Treatment and Disposal	-	-	-	699,193	699,193
Sewer Pretreatment	-	-	-	94,506	94,506
Maintenance	480,482	-	-	-	480,482
Depreciation and Amortization	888,883	590,991	71,824	1,928,730	3,480,427
<b>Total Operating Expenses</b>	<b>42,349,573</b>	<b>23,127,731</b>	<b>911,903</b>	<b>6,152,826</b>	<b>72,542,033</b>
Income from Operations	1,933,234	543,356	(202,157)	1,103,828	3,378,261
<b>Non-operating Revenues (Expenses)</b>					
Investment Income	352,401	104,105	253	419,759	876,518
Gain on Sale	-	1,907	3,200	9,340	14,447
Interest Expense	-	-	-	(292,135)	(292,135)
<b>Total Non-operating Revenues (Expenses)</b>	<b>352,401</b>	<b>106,012</b>	<b>3,453</b>	<b>136,964</b>	<b>598,830</b>
Income (Loss) Before Contributions and Transfers	2,285,635	649,368	(198,704)	1,240,792	3,977,092
<b>Contributions and Transfers In (Out):</b>					
Tap Fees	-	-	-	821,194	821,194
Contributions of Utility Plant	480,971	-	-	6,629,117	7,110,088
Transfer to General Fund/Payment in Lieu of Tax	(442,464)	(179,238)	-	(205,206)	(826,908)
<b>Change in Net Assets</b>	<b>2,324,142</b>	<b>470,130</b>	<b>(198,704)</b>	<b>8,485,897</b>	<b>11,081,465</b>
<b>Net Assets - July 1, 2005</b>	<b>21,322,234</b>	<b>19,801,659</b>	<b>457,786</b>	<b>46,529,103</b>	<b>88,110,782</b>
<b>Net Assets - June 30, 2006</b>	<b>\$ 23,646,376</b>	<b>\$ 20,271,789</b>	<b>\$ 259,082</b>	<b>\$ 55,015,000</b>	<b>\$ 99,192,247</b>

CITY OF GALLATIN, TENNESSEE  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds					Total
	Electric Fund	Gas Fund	Golf Course	Water & Sewer Fund	Proprietary Funds	
<b>Cash Flows from Operating Activities:</b>						
Cash Received from Customers	\$ 43,443,931	\$23,613,720	\$ 709,746	\$ 8,290,005	\$76,057,402	
Cash Payments to Suppliers for Goods and Services	(39,386,139)	(22,123,857)	(95,588)	(1,629,024)	(63,234,608)	
Cash Payments to Employees for Services	(1,601,840)	(852,693)	(547,863)	(2,206,944)	(5,209,039)	
Net Cash Provided (Used) by Operating Activities	<u>2,456,252</u>	<u>637,171</u>	<u>66,296</u>	<u>4,454,037</u>	<u>7,613,756</u>	
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Principal Paid on Bonds/Notes	-	-	-	(495,000)	(495,000)	
New Borrowings on Bonds/Notes	-	-	-	-	-	
Interest Paid on Long-Term Debt	572	-	-	(295,882)	(295,310)	
Acquisition and Construction of Capital Assets	(2,263,946)	(2,041,650)	(67,348)	(13,577,563)	(17,950,506)	
Proceeds from Sale of Capital Assets	-	1,909	3,200	9,341	14,450	
Net Cash Used by Capital and Related Financing Activities	<u>(2,263,374)</u>	<u>(2,039,741)</u>	<u>(64,148)</u>	<u>(14,359,104)</u>	<u>(18,726,366)</u>	
<b>Cash Flows from Non-Capital Financing Activities</b>						
Customer and Developer Contributions	480,971	-	-	6,629,117	7,110,088	
Transfers to Other Funds	(442,464)	(179,238)	-	(205,206)	(826,908)	
Advances - TVA Residential Energy Services Program	(5,874)	-	-	-	(5,874)	
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>32,633</u>	<u>(179,238)</u>	<u>-</u>	<u>6,423,911</u>	<u>6,277,306</u>	
<b>Cash Flows from Investing Activities:</b>						
Purchase of Investments	-	-	-	(997,190)	(997,190)	
Receivables - TVA Residential Energy Service Program	100,000	-	-	-	100,000	
Interest Received	352,401	104,105	253	419,759	876,518	
Net Cash Provided by Investing Activities	<u>452,401</u>	<u>104,105</u>	<u>253</u>	<u>(577,431)</u>	<u>(20,672)</u>	
<b>Net Increase in Cash and Restricted Cash</b>	<u>677,912</u>	<u>(1,477,703)</u>	<u>2,401</u>	<u>(4,058,587)</u>	<u>(4,855,976)</u>	
<b>Cash and Restricted Cash at Beginning of Year</b>	<u>4,774,265</u>	<u>4,564,035</u>	<u>3,819</u>	<u>11,316,908</u>	<u>20,659,027</u>	
<b>Cash and Restricted Cash at End of Year</b>	<u>\$ 5,452,177</u>	<u>\$ 3,086,332</u>	<u>\$ 6,220</u>	<u>\$ 7,258,321</u>	<u>\$15,803,051</u>	
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>						
Operating Income	\$ 1,933,234	\$ 543,356	\$ (202,157)	\$ 1,103,828	\$ 3,378,261	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	888,883	590,991	71,824	1,928,730	3,480,427	
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivable, Net	(838,876)	(57,367)	-	212,157	(684,086)	
(Increase) Decrease in Due from Other Funds	-	(12,377)	(36,000)	(79,388)	(127,765)	
(Increase) Decrease in Inventory	(209,929)	(482,798)	(2,483)	14,872	(680,338)	
(Increase) Decrease in Prepaid and Other Current Expenses	(57,886)	-	-	-	(57,886)	
(Increase) Decrease in Other Assets	27,255	-	261	-	27,516	
Increase (Decrease) in Accounts Payable and Liabilities	804,289	(30,028)	(1,679)	249,902	1,022,484	
Increase (Decrease) in Compensated Absences	(90,918)	85,394	15,143	202,742	212,361	
Increase (Decrease) in Due to Other Funds	-	-	221,387	-	221,387	
Net Cash Provided by Operating Activities	<u>\$ 2,456,252</u>	<u>\$ 637,171</u>	<u>\$ 66,296</u>	<u>\$ 3,632,843</u>	<u>\$ 6,792,562</u>	
<b>Noncash Capital Financing Activities</b>						
Contribution of Capital Assets	\$ 480,971	\$ -	\$ -	\$ 6,629,117	\$ 7,110,088	

See auditors' report and notes to the financial statements.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1. Significant Accounting Policies**

The City of Gallatin, Tennessee was incorporated November 7, 1815. The City operates under a Mayor-Alderman form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Gallatin, Tennessee conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

**A. Reporting Entity**

The accompanying financial statements present the government and its component unit. Component units are entities for which the government is considered to be financially accountable. Component units, although legally separate entities, are required to be presented in the government's financial statements using either a "blended" or "discrete" presentation.

The Industrial Development Board (a Corporation) of the City of Gallatin, Tennessee was established to promote industry and develop trade for the City. The Corporation's board is appointed by the Mayor and approved by the City Council. The Corporation issues industrial development bonds for private enterprises. The bonds do not constitute debt of the City and are secured solely by revenues received from the commercial organizations on whose behalf the bonds are issued. The City must approve any debt issues of the Corporation. The Board is discretely presented as a Governmental Fund-Component Unit in the accompanying financial statements. Financial statements of the Board are available from the City Finance Director.

Related Organizations

The City's officials are also responsible for appointing the members of the board of the following organization, but the City's accountability for this organization does not extend beyond making the appointments.

Gallatin Housing Authority-The Board of the Authority is appointed by the Mayor, but the city does not provide funding, has no obligation for the debt issued by the Authority, and cannot impose its will upon the operations of the Authority. Accordingly, the Authority has not been included in the reporting entity.

Joint Venture

The City is a participant in the Sumner County Resource Authority, a joint venture, in which it retains an ongoing financial interest. The Authority is a joint venture of Sumner County and the Cities of Gallatin and Hendersonville and operates a solid waste energy recovery plant. The City has no equity interest in the Resource Authority. Complete financial statements of the Authority are available from the City Finance Director.

**B. Government-wide and Fund Financial Statements**

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 1. Significant Accounting Policies – Continued**

**B. Government-wide and Fund Financial Statements - Continued**

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues to be available in the period for which levied if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund

Environmental Service Fund – accounts for activities related to the collection and disposal of refuse

The government reports the following major proprietary funds:

Water & Sewer Fund - accounts for the water and waste water services provided to customers of the system

Natural Gas Fund - accounts for the distribution of natural gas to customers of the system

Electric Fund - accounts for the activities of the government's electric distribution operations

Golf Course Fund - accounts for the activities of the City's municipal golf course

The City has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". Accordingly, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The City, however, has elected not to apply FASB pronouncements issued subsequent to that date.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 1. Significant Accounting Policies – Continued**

**C. Measurement Focus and Basis of Accounting - Continued**

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu taxes and other charges between the government's utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the various utility funds and golf course fund are charges to customers for sales and services. The Water & Sewer fund also recognizes as contributions the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Cash and Investments**

For purposes of the proprietary statements of cash flows, the City defines its cash and cash equivalents to include only cash on hand, demand deposits, money-market accounts, deposits with the Tennessee Local Government Investment Pool, and all highly liquid investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury, certificates of deposit, certain federal nonconvertible debt securities, repurchase agreements and the State Treasurer's Investment Pool. Investments are stated at fair market value.

**E. Inventories**

Inventory of the Water & Sewer and Gas Funds is valued at the lower of cost or market using a weighted-average flow assumption. Inventory of the Electric System is stated at average cost as determined by the moving average inventory method. Inventory of the General Fund consists of expendable supplies held for consumption. Governmental fund inventories are recorded at cost under the consumption method.

**F. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. General infrastructure assets acquired prior to July 1, 2002, are not reported in the basic financial statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to July 1, 2002. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The Electric System accounts for replacement or renewal of "retirement units" by charging the cost of the unit to utility plant and accumulated depreciation. Removal costs associated with the unit are charged to accumulated depreciation based on average rates which range from 3% to 20%.



**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 1. Significant Accounting Policies – Continued**

**F. Capital Assets - Continued**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Depreciation has been provided over estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Infrastructure	50 years
Buildings	25-50 years
Distribution Systems	10-50 years
Equipment	3-10 years
Furniture and Fixtures	3-10 years

**G. Property Tax**

The City's property tax is levied each October 1<sup>st</sup> on the assessed value listed as the prior January 1<sup>st</sup> for all real and personal property located in the City's legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1<sup>st</sup> of the year assessments are made.

Assessed values are established by the State of Tennessee at the following rates of assessed market value:

Public Utility Property	55%
Industrial and Commercial Property	
Real	40%
Personal	30%
Farm and Residential Property	25%

Taxes are levied at a rate of \$1.12 per \$100 of assessed valuation.

Payments may be made during the period from October 1<sup>st</sup> through February 28<sup>th</sup>. Current tax collections of \$6,023,647 for the fiscal year ended June 30, 2006 were approximately 96% of the tax levy.

Taxes become delinquent in March of the year subsequent to the levy date; at that time delinquent taxes are turned over to the City attorney for collection proceedings. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as of June 30<sup>th</sup>.

**H. Interfund Receivables, Payables and Transfers**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and not expendable available resources.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**I. Compensated Absences**

Vacation pay is accumulated at the rate of one week after the first year of employment and two weeks a year for every year until year eleven, then one day is added for each year up to a maximum of 20 days. Sick leave is accumulated at the rate of one day per month (10 days per year for the Electric Fund). Upon reaching normal retirement age, or 30 years of service, an employee is paid for 50% of any unused sick leave. A percentage of sick leave, up to 50% is paid if an employee terminates for any reason other than achieving normal retirement and has 20 years service with the City.

**J. Long-Term Liabilities**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds and are presented in the accompanying financial statements as other assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**K. Fund Balance Reserves**

Reserves represent those portions of fund equity not appropriate for expenditure, legally segregated for a specific future use or committed to outside third parties. Designated fund balances represent tentative plans for future use of financial resources, but subject to change.

**L. Net Assets**

Restricted net assets are net assets less related liabilities reported in the government-wide statement of net assets that are subject to constraints on their use by creditors, grantors, contributors, legislation, or the City's own sales tax enabling legislation. Certain proceeds of the Enterprise Fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on their respective balance sheets because they are maintained in separate bank accounts and their use is either limited by applicable bond covenants or represent proceeds from bond issues that are restricted for use in construction.

Net Assets Invested in Capital Assets Net of Related Debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

**M. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**N. Accounts Receivable**

All receivables are reported net of estimated uncollectible amounts.

**Note 2. Cash and Investments**

The City has no formal deposit and investment policies other than those prescribed by State of Tennessee statute and explained below.

*Policies:* Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by Federal Deposit Insurance Corporation insurance (FDIC). Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool.

*Deposits:* As of June 30, 2006, all of the City's deposits were held by financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee or in

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 2. Cash and Investments – Continued**

the State of Tennessee Local Government Investment Pool ("LGIP"). Participating banks in the bank collateral pool determine the aggregate balance of their public fund accounts. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collected securities required to be pledged by the participant banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool.

The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under the additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure.

*Investments:* As of June 30, 2006, the City also held investments in various debt securities with Multi-Bank Securities, Inc. The electric fund also held certificates of deposit with interest rates ranging from 4% to 5.4% and maturities exceeding three months.

*Custodial Credit Risk:* Since the debt security investments are of agencies of the U.S. Government they are not considered to have custodial credit risk.

*Credit Risk:* The City's credit risk concentration for investments in debt securities at June 30, 2006 is as follows:

**Credit Quality Distribution of Securities**  
**With Credit Exposure as a Percentage of Total Investments**

Federal Home Loan Bank	AAA 86%
Federal Home Loan Mortgage Corporation	AAA 14%

*Concentration of Credit Risk :* At June 30, 2006 the City had the following investments:

<b>Investment Type</b>	<b><u>Fair Value</u></b>	<b><u>Weighted Average Maturity (Years)</u></b>
U.S. agencies	\$1,743,295	1.21
Total fair value	\$1,743,295	
Portfolio weighted average maturity	1.21	

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. City policy provides that to the extent practicable, investments are matched with anticipated cash flows.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 3. Capital Assets**

A summary of changes in capital assets as presented in the governmental activities column of the government-wide financial statement is as follows:

	7/1/2005	Additions	Disposals	6/30/2006
<b>Governmental Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 2,739,335	\$ 619,913	\$ -	\$ 3,359,248
Capital Assets being Depreciated				
Buildings	\$ 10,085,717	322,445	-	\$ 10,408,162
Other Improvement	2,638,019	468,924	-	3,106,943
Infrastructure	19,979,970	1,605,822	-	21,585,792
Machinery & Equipment	2,961,279	547,227	-	3,508,506
Vehicles	4,760,954	1,968,136	-	6,729,090
Total Capital Assets being Depreciated	\$ 40,425,939	\$ 4,912,553	\$ -	\$ 45,338,492
<b>Business-type Activities</b>				
Capital Assets not being Depreciated				
Land & Right of Way	\$ 1,574,875	\$ 36,658	\$ -	\$ 1,611,533
Water Usage Rights	54,000	-	-	54,000
Construction in Progress	1,408,550	7,544,678	776,234	8,176,994
Total Capital Assets not being Depreciated	\$ 3,037,425	\$ 7,581,336	\$ 776,234	\$ 9,842,527
Capital Assets being Depreciated				
Buildings/ Structures	\$ 3,177,364	\$ 83,253	\$ 85,091	\$ 3,175,526
Distribution Systems	106,213,008	10,778,769	274,091	116,717,686
Equipment & Vehicles	3,506,193	177,009	-	3,683,202
Furniture & Fixtures	1,100,298	-	-	1,100,298
Total Capital Assets being Depreciated	\$ 113,996,863	\$ 11,039,031	\$ 359,182	\$ 124,676,712
<b>Governmental Activities</b>				
Accumulated Depreciation				
Buildings & Structures	\$ 3,201,604	\$ 283,208	\$ -	\$ 3,484,812
Other Improvements	424,381	108,303	-	532,684
Infrastructure	2,955,191	415,106	-	3,370,297
Equipment	2,111,074	468,033	-	2,579,107
Vehicles	4,182,012	615,522	-	4,797,534
Total Accumulated Depreciation	\$ 12,874,262	\$ 1,890,172	\$ -	\$ 14,764,434
<b>Business-type Activities</b>				
Accumulated Depreciation				
Building & Structures	\$ 1,443,001	\$ 167,891	\$ 37,999	\$ 1,572,893
Distribution Systems	38,836,792	3,001,087	311,627	41,526,252
Equipment and Vehicles	2,849,050	194,700	-	3,043,750
Furniture and Fixtures	1,002,609	31,773	-	1,034,382
Total Accumulated Depreciation	\$ 44,131,452	\$ 3,395,451	\$ 349,626	\$ 47,177,277
<b>Total Governmental Activities, Net</b>	\$ 30,291,012	\$ 3,642,294	\$ -	\$ 33,933,306
<b>Total Business-type Activities, Net</b>	\$ 72,902,836	\$ 15,224,915	\$ 785,790	\$ 87,341,961

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 3. Capital Assets - Continued**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities**

General Government	\$ 436,976
Public Safety	471,395
Animal Control	-
Highways, Streets and Roadways	450,053
Public Works	17,163
Environmental Services	76,979
Parks and Recreation	395,094
Engineering	38,567
Community Services	-
Economic Development	3,706
Vehicle Maintenance	239
	<u>\$ 1,890,172</u>

**Business-type Activities**

Electric	\$ 852,769
Gas	590,993
Golf	66,183
Water and Sewer	1,885,506
	<u>\$ 3,395,451</u>

**Note 4. Long-Term Debt**

The following are summaries of long-term debt maturities of the City for the year ended June 30, 2006. Refer to page 48 for a detail of long-term debt maturities:

Year Ended June 30,	Principal Due	Interest Due
2007	\$1,320,000	\$370,328
2008	875,000	333,427
2009	865,000	313,253
2010	865,000	291,490
2011	855,000	268,202
2012-2016	4,050,000	951,549
2017-2021	2,010,000	420,247
2022-2026	1,020,000	89,544
Total Long-term Debt	<u>\$11,860,000</u>	<u>\$3,038,040</u>

The following is a summary of changes to long-term liabilities during the year ended June 30, 2006

	Balance 7/1/2005	Additions	Disposals	Balance 6/30/2006	Due Within 1 Year
<b>Governmental Activities</b>					
<b>Bonds and Notes Payable</b>					
Notes Payable	\$ -	-	-	\$ -	\$ -
Revenue Bonds	4,175,000	-	760,000	3,415,000	775,000
Total Bonds and Notes Payable	<u>\$ 4,175,000</u>	<u>\$ -</u>	<u>\$ 760,000</u>	<u>\$ 3,415,000</u>	<u>\$ 775,000</u>
<b>Other Long-Term Liabilities</b>					
Compensated Absences	\$ 701,225	\$ 700,440	\$ 652,374	\$ 749,291	\$ 749,291
Total Other Long-Term Liabilities	<u>\$ 701,225</u>	<u>\$ 700,440</u>	<u>\$ 652,374</u>	<u>\$ 749,291</u>	<u>\$ 749,291</u>
Total Governmental Activities Long-	\$ 4,876,225	\$ 700,440	\$ 1,412,374	\$ 4,164,291	\$ 1,524,291

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

Term Liabilities

**Business-type Activities**

**Bonds and Notes Payable**

Notes Payable	\$ -	-	-	\$ -	\$ -
Revenue Bonds	8,940,000	-	495,000	8,445,000	545,000
Total Bonds and Notes Payable	<u>\$ 8,940,000</u>	<u>\$ -</u>	<u>\$ 495,000</u>	<u>\$ 8,445,000</u>	<u>\$ 545,000</u>

**Other Long-Term Liabilities**

Compensated Absences	530,046	204,354	277,290	457,110	457,110
Total Other Long-Term Liabilities	<u>\$ 530,046</u>	<u>\$ 204,354</u>	<u>\$ 277,290</u>	<u>\$ 457,110</u>	<u>\$ 457,110</u>

Total Business-type Activities Long-Term Liabilities	\$ 9,470,046	\$ 204,354	\$ 772,290	\$ 8,902,110	\$ 1,002,110
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Industrial Development Bonds

The City, through its Industrial Development Board, has in the past authorized issuance of various Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and payable solely from payments received on the underlying mortgage loans. Neither the City, State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Advance Refunding of Bonds

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service requirements on the retired bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2006, outstanding bonds considered as defeased were as follows:

General Obligation Public Improvement Bonds - Series 1993	\$ 1,245,000
Sewer & Water Revenue Tax Bonds - Series 1997	\$ 3,600,000
General Obligation Bonds - Series 1997	\$ 2,850,000

**Note 5. Pension Plan**

**A. Plan Description**

City of Gallatin

The City (exclusive of the electric utility) administers an IRC Section 401K plan (the Plan). Employees of the City's Municipal Service departments, Water and Sewer Utility Fund, Natural Gas Utility Fund, and Municipal Golf Course Fund are eligible to participate in the Plan.

The plan assets are not held by the City and the City does not exercise a trustee responsibility over such assets nor does the City actively participate in the Plan's management or administration. Accordingly, the City does not meet the criteria necessary for presentation of the Plan as a fiduciary fund of the City.

Electric Department

The Gallatin Department of Electricity Employees' Pension Plan (the Electric Plan) is a single-employer defined benefit pension plan administered by the Gallatin Electric Power Board. The Electric Plan provides retirement, disability, and death benefits to the Electric Plan members and their beneficiaries. The Electric Plan covers substantially all Department employees. The authority to establish and amend benefit provisions of the Electric Plan is assigned to the Gallatin Electric Power Board. The Electric Plan issues a separate financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Acuff & Associates, 210 Westwood Place, Suite 100, Brentwood, TN 37027 or by calling 1-615-726-2410.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 5. Pension Plan – Continued**

**B. Funding Policy**

City of Gallatin

The Plan allows employees to make tax deferred contributions into self-directed investments of as much as allowable under the internal revenue code. The City contributes 3% of the employee's annual compensation and will match up to an additional 3% of the employee's contribution.

Electric Department

The contribution requirements of Electric Plan members and the department are established and may be amended by the Gallatin Electric Power Board. Electric Plan members are required to contribute 3% of their annual covered salary. The Department is required to contribute at an actuarially determined rate. The current rate is 12.99% of annual covered payroll.

**C. Annual Pension Cost**

City of Gallatin

The maximum contribution to the Plan by the City is defined as up to 6% of an eligible employee's annual compensation. The City contributed \$553,419 on behalf of the employees during 2006.

Electric Department

For 2006, the Department's annual pension cost of \$145,889 was equal to the Department's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the aggregate cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases of 4% per year, and (c) 1.5% per year cost-of-living adjustments. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ 145,889	100.00%	\$ -
6/30/2005	\$ 133,442	100.00%	\$ -
6/30/2004	\$ 138,390	100.00%	\$ -

**Note 6. Risk Management**

The City is exposed to various risks to general liability and property and casualty losses. The City deems it was more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for general liability, property, casualty and workman's compensation coverage. The City participates in the TML Risk Management Pool which is a public entity risk pool established by the Tennessee Municipal League, an association of member Cities. The City pays an annual premium to the TML for its general liability and casualty insurance coverage.

The City continues to carry commercial insurance for all other risks of loss, including employees health and accident and environmental. Settled claims for these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 7. Commitments, Concentrations and Contingencies**

**A. Contracts**

Natural Gas Fund

The City purchases natural gas under various contracts requiring the purchase of minimum quantities of natural gas from suppliers at costs based upon national index prices. Natural gas purchases exceeding the specified minimum quantities are made at the going market value. City management believes any risk associated with minimum purchase quantities as specified in the aforementioned contracts to be minimal. Further, the City is committed under various natural gas transportation agreements requiring specified minimum transmission capacities.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 7. Commitments, Concentrations and Contingencies – Continued**

**A. Contracts - Continued**

Sumner County Resource Authority

The City has entered into an agreement with the Sumner County Resource Authority, a joint venture (the Authority), Sumner County, TN and the City of Hendersonville, TN which provides that in the event the Authority's revenues are insufficient to cover the costs of operation and debt retirement the County and Cities shall pay such deficit in the proportions of 3/7, 2/7, and 2/7, respectively. These same entities have executed a "Contract in Lieu of Performance Bond" with the State of Tennessee for financial assurance of the closure and post closure costs of the landfill should the Authority be unable to do so.

The Authority operates primarily as a solid waste transfer station. The City utilizes the Authority for solid waste disposal purposes at essentially the same cost per ton as in prior years. There is uncertainty as to the future operations of the Authority, as well as, the costs relative to the change in operations, or possible dissolution.

The Authority, as of June 30, 2006, has net assets invested in capital assets (net of related debt) in the amount of \$2,917,039 and an unrestricted net deficit of (\$826,298) as compared to \$1,995,259 and (\$1,180,503) for the year 2005. During 2006, the City provided deficit funding in the amount of \$508,832 and paid the Resource Authority \$467,434 in tipping fees. Deficit funding and tipping fees amounted to \$475,000 and \$445,705, respectively for 2005.

**B. Concentrations**

The business-type activities have a concentration of accounts receivable with customers who are geographically concentrated in the City service area. The business-type activities, excluding the golf fund, require a cash deposit from new customers or a letter of credit from a previous utility company showing timely payment of bills. These requirements are in place to mitigate the risk of uncollectible accounts.

During the year ended June 30, 2006, The City supplied utility services to a corporation accounting for 5% of Water and Sewer Fund revenues, 66% of natural gas revenues and 18.6% of electric fund revenues.

**C. Litigation**

There are pending lawsuits in which the City is involved. The City attorney estimates that potential claims against the City resulting from such litigation would not materially affect the accompanying financial statements of the City.

**Note 8. Interfund Balances and Transfers**

Interfund balances as of June 30, 2006, consist of the following:

Due From Fund	Due to Fund					Total
	General Fund	Environmental Services	Gas	Golf	Water & Sewer	
General Fund	\$ -	\$ 7,939	\$12,377	\$148,525	\$ 33,315	\$ 202,155
Environmental Services	-	-	-	-	-	-
Other Governmental Funds	313,010	-	-	-	46,073	359,083
Electric	-	-	-	-	-	-
Gas	-	-	-	-	-	-
Golf	961,387	-	-	-	-	961,387
Water & Sewer	-	-	-	-	-	-
	<u>\$ 1,274,397</u>	<u>\$ 7,939</u>	<u>\$12,377</u>	<u>\$148,525</u>	<u>\$ 79,388</u>	<u>\$1,522,625</u>

The balance of \$961,387 due to the general fund from the golf fund resulted from loans made to fund operations. The balance is not scheduled to be collected in the subsequent year. All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.



**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 8. Interfund Balances and Transfers - Continued**

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Transfer From	Transfer To:		
	General Fund	Environmental Services	Total
General Fund	\$ -	1,358,603	\$1,358,603
Environmental Services	-	-	-
Other Governmental Funds	404,027	-	404,027
Electric	442,464	-	442,464
Gas	179,238	-	179,238
Golf	-	-	-
Water & Sewer	205,206	-	205,206
	<u>\$ 1,230,934</u>	<u>\$ 1,358,603</u>	<u>\$2,589,538</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 9. Fund Balances- Reserves and Designations and Prior Period Adjustment**

The City records reserves to indicate that a portion of the governmental fund balances are legally segregated. The following is a description of the reserved amounts:

Reserved for Inventory - Amounts are reserved for supply inventory are not readily convertible to spendable resources and accordingly, not available for appropriation.

Reserved for Endowment- Amounts are segregated for the non-expendable corpus, as established by court decree for fund balances of the Thomas A. Witherspoon Educational Memorial Trust Fund in the amounts of \$15,000. All net appreciation on investments of donor-restricted endowments is available for authorization for expenditure by the governing board, and is reported as interest income.

Designations of governmental fund balances are not legally required segregations but are segregated by the City's management for specific purposes. As of June 30, 2006 the City's designated unreserved fund balances are described as follows:

Designated for Capital Projects- The designation of a portion of the governmental fund balances for the future acquisition of capital assets appropriated in a previous year but not expended. Such amounts are subject to change and may not result in the exact amount indicated being expended.

Designated for Other- The City purposely excludes 20% of general fund revenues for future use as determined by the governing body and requires a supermajority of votes by the governing body to appropriate.

The governmental fund balances was restated as of the beginning of the fiscal year from \$10,227,512 to \$10,348,693, an increase of \$121,181. The increase is a result of other accounts receivable for miscellaneous taxes being omitted from prior year financial statements and represents a correction of an error.

**CITY OF GALLATIN, TENNESSEE**  
**Notes to Financial Statements - Continued**  
**June 30, 2006**

**Note 10. Net Assets**

Restricted assets consist of the following:

Restricted for Endowment- Amounts are segregated for the non-expendable corpus, as established by court decree for fund balances of the Thomas A. Witherspoon Educational Memorial Trust Fund in the amounts of \$15,000. All net appreciation on investments of donor-restricted endowments is available for authorization for expenditure by the governing board, and is reported as interest income.

Net assets were restated as of the beginning of the fiscal year from \$124,272,971 to \$124,243,843, a decrease of \$29,128. The decrease is a result of capital assets and related accumulated depreciation being omitted from prior year financial statements and represents a correction of an error.

**Note 11. Prepaid Power Costs- TVA – Electric Fund**

The Electric Fund has an agreement with TVA whereby they would prepay a portion of the price of a block of kilowatt hours yet to be supplied by TVA. Each block is called a "discounted energy unit" (DEU). The Department purchased one DEU for \$1,000,000. For that they will receive a discount over a ten-year period for each kilowatt hour included in the DEU which they actually purchase from TVA. The DEU is being recognized on the straight-line basis over ten years. The unamortized balance at the end of the year was \$650,000 (net of interest) and is presented as an other current asset in the accompanying financial statements.

**Note 12. Other Post-Employment Benefits-Electric Fund**

In addition to its employee retirement plan, the Electric Fund provides post-employment benefits in the form of supplemental health insurance premium reimbursements to eligible retirees. The benefits are provided in accordance with Department policy. The criteria to determine eligibility include years of service and employee age at date of retirement. The department funds the benefits on a pay-as-you-go basis. Eligible retirees may receive up to \$150 per month for reimbursement of their supplemental health insurance premiums. During 2006, the System paid out \$8,262 to eligible retirees. There are five retirees currently eligible to receive benefits.

**Note 13. Budget Overages**

As of June 30, 2006, the following budget overages were noted. Funding of any deficiencies is the ultimate responsibility of the City of Gallatin, Tennessee.

<u>Fund/Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Overage</u>
City Administration	541,238	588,168	(46,931)
Environmental Services Fund	1,780,472	2,152,082	(371,610)
Drug Fund	120,000	125,960	(5,960)

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Funding Progress**  
**Electric Fund Pension Plan**  
**June 30, 2006**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL/ Surplus (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a % of Covered Payroll ((b-a)/c)	Investment Assumption
6/30/2006	7/1/2005	\$ 3,908,037	3,819,632	(88,405)	102.3%	1,201,722	-7%	7%
6/30/2004	7/1/2003	\$ 3,529,647	3,251,778	(277,869)	108.5%	1,200,575	-23%	7%
6/30/2002	7/1/2001	\$ 3,191,483	2,738,451	(453,032)	116.5%	1,101,779	-41%	7%
6/30/2000	7/1/1999	\$ 2,764,807	2,204,865	(559,942)	125.4%	1,067,982	-52%	7%

Fiscal Year Ended	Actuarial Method	Amortization Period	Market Value Assets	Annual Required Contribution (ARC)	Actual Contribution	Net Pension Obligation/ (Asset) NPO	% of ARC Contributed	Salary Assumption
6/30/2005	Aggregate Costs	N/A	\$ 3,959,468	\$ 133,442	\$ 133,442	0	100%	4%
6/30/2003	Aggregate Costs	N/A	\$ 3,461,801	\$ 102,917	\$ 102,917	0	100%	4%
6/30/2002	Aggregate Costs	N/A	\$ 3,229,064	\$ 98,086	\$ 98,086	0	100%	4%
6/30/2001	Aggregate Costs	N/A	\$ 3,194,878	\$ 81,889	\$ 81,889	0	100%	4%
6/30/2000	Aggregate Costs	N/A	\$ 3,096,122	\$ 79,347	\$ 79,347	0	100%	4%

See auditors' report and notes to required supplementary information.

CITY OF GALLATIN, TENNESSEE  
Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance with Final
	Original	Final	Actual	Final
<b>Revenues</b>				
Taxes:				
Real and Personal Property Tax	\$ 6,300,000	\$ 6,300,000	\$ 6,283,928	\$ (16,072)
Penalty and Interest	75,000	75,000	70,232	(4,768)
Local Option Sales Tax	4,500,000	4,500,000	4,673,907	173,907
Beer Tax	575,000	575,000	624,036	49,036
Alcohol Privilege Tax	19,500	19,500	15,586	(3,914)
Wholesale Liquor Tax	135,000	135,000	140,178	5,178
Business Tax	360,000	360,000	388,283	28,283
Cable TV Franchise Tax	200,000	200,000	248,792	48,792
Payment in Lieu of Tax	862,218	865,278	854,132	(11,146)
Total Taxes	13,026,718	13,029,778	13,299,074	269,296
Licenses and Permits	461,000	461,000	529,282	68,282
Fines and Forfeitures	622,700	622,700	830,657	207,957
Charges for Services:				
Civic Center Revenues	417,000	417,000	417,034	34
Administrative Services	134,500	134,500	134,716	216
Swimming Pool Concessions and Fees	18,300	18,300	36,402	18,102
Recreational Program Fees	50,000	50,000	106,208	56,208
Vehicle Repair Charges	106,000	106,000	120,466	14,466
Public Safety Services	11,500	16,651	14,550	(2,101)
Engineering Services	42,000	42,126	39,118	(3,008)
Street Department Services	38,000	38,000	70,682	32,682
Other	7,700	7,700	17,484	9,784
Total Charges for Services	825,000	830,277	956,660	126,383
Intergovernmental:				
TVA Replacement Tax Allocation	110,000	110,000	173,867	63,867
Grants	471,567	662,509	451,585	(210,925)
Streets and Transportation	55,000	55,000	48,781	(6,219)
Sales Tax	1,450,000	1,450,000	1,480,432	30,432
State Beer Tax	12,500	12,500	11,893	(607)
State Income Tax	200,000	200,000	171,961	(28,039)
State Excise Tax	40,000	40,000	48,861	8,861
State Alcoholic Beverage Tax	80,000	80,000	83,829	3,829
State Gasoline Tax	550,000	550,000	494,336	(55,664)
Gallatin Housing Authority	-	-	-	-
State Supplement-Police and Fire	1,500	1,500	44,899	43,399
Gas and Motor Fuel Tax	120,000	120,000	122,476	2,476
State Telecommunications Tax	5,000	5,000	3,824	(1,176)
Other Grants and Donations	-	-	-	-
Total Intergovernmental	3,095,567	3,286,509	3,136,744	(149,765)
Investment Income	80,000	80,000	207,782	127,782
Rental Income	308,700	308,700	86,860	(221,841)
Miscellaneous Revenues	6,000	6,000	50,454	44,454
Total Revenues	\$ 18,425,685	\$ 18,624,964	\$ 19,097,511	\$ 472,547
<b>Expenditures</b>				
General Government:				
City Administration:				
Current:				
Salaries	\$ 500	\$ 500	\$ 3,867	\$ (3,367)
Services	62,500	62,500	56,609	5,891
Payments in Lieu of Tax	82,000	82,000	88,493	(6,493)
Inmate Lease Expense	35,000	35,000	35,000	-
Tornado Expenses	-	-	166,511	(166,511)
Other Operating Expenses	43,925	49,925	51,471	(1,546)
Total Current	223,925	229,925	401,950	(172,025)
Capital Outlay	208,482	311,313	186,218	125,094
Total City Administration	432,407	541,238	588,168	(46,931)

See auditors' report and notes to required supplementary information.

CITY OF GALLATIN, TENNESSEE  
Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual, Continued  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance with Final
	Original	Final	Actual	
General Government Expenditures, Continued:				
Mayor's Office:				
Current:				
Salaries and Employee Benefits	\$ 142,150	\$ 147,119	\$ 142,663	\$ 4,455
Supplies	2,000	2,000	1,776	224
Utilities	1,527	1,527	1,548	(21)
Other Operating Expenses	4,750	4,750	3,819	931
Total Current	150,427	155,396	149,806	5,590
Capital Outlay	2,000	2,000	621	1,379
Total Mayor's Office	152,427	157,396	150,426	6,969
City Planner:				
Current:				
Salaries and Employee Benefits	266,290	283,370	259,918	23,452
Repairs and Maintenance	500	500	754	(254)
Contractual Services	4,200	4,200	3,793	407
Supplies	3,500	3,500	5,753	(2,253)
Utilities	1,500	1,500	1,429	71
Tornado Expenses	-	-	358	(358)
Other Operating Expenses	17,400	17,400	16,562	838
Planning Commission:				
Salaries	4,454	4,454	4,547	(93)
Contractual Services	15,500	15,500	14,909	591
Other Operating Expenses	1,000	1,000	1,261	(261)
Total Current	314,344	331,424	309,284	22,140
Capital Outlay	296,996	349,796	137,546	212,250
Total City Planner	611,340	681,220	446,830	234,390
Finance Department:				
Current:				
Salaries and Employee Benefits	283,197	293,811	287,316	6,495
Contractual Services	60,000	60,000	56,332	3,668
Supplies	4,000	4,000	3,516	484
Utilities	1,000	1,000	893	107
Other Operating Expenses	8,150	8,150	8,789	(639)
Total Current	356,347	366,961	356,845	10,115
Capital Outlay	2,407	2,407	1,091	1,316
Total Finance Department	358,754	369,368	357,935	11,432
Information Technology:				
Current:				
Salaries and Employee Benefits	79,949	84,384	75,235	9,150
Contractual Services	5,000	5,000	4,978	22
Supplies	750	750	1,084	(334)
Utilities	300	300	714	(414)
Other Operating Expenses	15,500	15,500	12,516	2,984
Total Current	101,499	105,934	94,527	11,407
Capital Outlay	22,816	25,261	21,832	3,429
Total Information Technology Department	124,315	131,195	116,359	14,836
City Attorney:				
Current:				
Salaries and Employee Benefits	168,844	174,888	174,761	127
Repairs and Maintenance	200	200	-	200
Contractual Services	420	420	632	(212)
Supplies	1,000	1,000	1,430	(430)
Utilities	1,680	1,680	1,613	67
Tornado Expenses	-	-	36	(36)
Litigation Expense	1,000	1,000	19,410	(18,410)
Other Operating Expenses	11,120	11,120	10,442	678
Total Current	184,264	190,308	208,324	(18,016)
Capital Outlay	162	102,162	443	101,719
Total City Attorney	184,426	292,470	208,767	83,703

See auditors' report and notes to required supplementary information.

CITY OF GALLATIN, TENNESSEE  
Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual, Continued  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance with Final
	Original	Final	Actual	Final
General Government Expenditures, Continued:				
City Recorder:				
Current:				
Salaries and Employee Benefits	\$ 187,078	\$ 192,386	\$ 189,354	\$ 3,032
Repairs and Maintenance	750	750	389	361
Contractual Services	10,300	10,300	9,864	436
Supplies	2,000	2,000	1,780	220
Utilities	2,500	2,500	1,283	1,217
Other Operating Expenses	22,055	22,055	13,463	8,592
Total Current	224,683	229,991	216,132	13,859
Capital Outlay	7,919	7,919	-	7,919
Total City Recorder	232,602	237,910	216,132	21,778
Personnel Department:				
Current:				
Salaries and Employee Benefits	166,649	172,510	163,698	8,812
Repairs and Maintenance	750	750	735	15
Contractual Services	1,000	1,000	-	1,000
Supplies	800	800	1,851	(1,051)
Utilities	600	600	529	71
Other Operating Expenses	14,460	14,460	10,704	3,756
Total Current	184,259	190,120	177,517	12,604
Capital Outlay	3,514	3,514	7,926	(4,412)
Total Personnel Department	187,773	193,634	185,443	8,191
Codes Administration:				
Current:				
Salaries and Employee Benefits	323,278	341,396	306,093	35,303
Repairs and Maintenance	750	750	815	(65)
Contractual Services	700	700	1,245	(545)
Supplies	2,500	2,500	3,058	(558)
Utilities	3,900	3,900	4,845	(945)
Tornado Expenses			397	(397)
Other Operating Expenses	13,500	13,500	14,846	(1,346)
Total Current	344,628	362,746	331,299	31,447
Capital Outlay	24,284	24,284	12,447	11,837
Total Codes Administration	368,912	387,030	343,746	43,284
General Government Buildings:				
Current:				
Salaries and Employee Benefits	129,674	135,315	134,107	1,208
Repairs and Maintenance	12,000	12,000	12,052	(52)
Contractual Services	8,000	8,000	8,407	(407)
Supplies	9,500	9,500	14,414	(4,914)
Utilities	64,700	64,700	32,869	31,831
Tornado Expenses			739	(739)
Other Operating Expenses	12,200	12,200	11,810	390
Total Current	236,074	241,715	214,398	27,317
Capital Outlay	4,611	14,911	13,699	1,212
Total General Government Buildings	240,685	256,626	228,097	28,529
Risk Management:				
Current:				
Insurance	528,000	528,000	405,095	122,905
Total Current	528,000	528,000	405,095	122,905
Capital Outlay	-	-	-	-
Total Risk Management	528,000	528,000	405,095	122,905
Total General Government	3,421,641	3,776,086	3,247,000	529,086
Economic Development Agency:				
Current:				
Salaries and Employee Benefits	\$ 134,659	\$ 135,723	\$ 122,718	\$ 13,004
Repairs and Maintenance	1,484	1,484	98	1,386
Contractual Services	752	752	600	152
Supplies	3,000	3,000	6,420	(3,420)

See auditors' report and notes to required supplementary information.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual, Continued**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>			Positive (Negative) Variance with Final
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
General Government Expenditures, Continued:				
Economic Development Agency: Continued				
Utilities	3,000	3,000	2,769	231
Other Operating Expenses	62,400	62,400	52,287	10,113
Total Current	205,295	206,359	184,893	21,466
Capital Outlay	12,949	45,404	45,093	311
Total Economic Development Agency	218,244	251,763	229,986	21,777
Public Safety:				
Police Department:				
Current:				
Salaries and Employee Benefits	3,568,048	3,842,909	3,731,172	111,737
Repairs and Maintenance	30,500	40,620	43,194	(2,575)
Contractual Services	89,000	89,000	77,771	11,229
Utilities	38,100	38,100	44,267	(6,167)
Supplies	58,500	63,881	62,881	1,001
Tornado Expenses			39,505	(39,505)
Other Operating Expenses	238,350	243,166	274,668	(31,502)
Police Special Funds:				
Supplies	2,000	2,000	544	1,456
Shop with a Cop	12,000	12,000	7,220	4,780
Total Current	4,036,498	4,331,677	4,281,221	50,455
Capital Outlay	397,581	432,812	360,023	72,789
Total Police Department	4,434,079	4,764,489	4,641,244	123,244
Fire Department:				
Current:				
Salaries and Employee Benefits	2,420,141	2,608,208	2,573,643	34,566
Repairs and Maintenance	22,000	22,000	19,236	2,764
Contractual Services	17,000	17,000	23,508	(6,508)
Supplies	14,500	14,500	14,977	(477)
Utilities	25,400	25,400	32,976	(7,576)
Tornado Expenses			3,271	(3,271)
Other Operating Expenses	44,700	44,762	38,909	5,853
Total Current	2,543,741	2,731,870	2,706,520	25,351
Capital Outlay	1,369,303	1,452,885	1,122,531	330,355
Total Fire Department	3,913,044	4,184,756	3,829,050	355,705
Total Public Safety	8,347,123	8,949,244	8,470,295	478,950
Animal Control:				
Current:				
Salaries and Employee Benefits	36,037	37,726	37,289	437
Repairs and Maintenance	450	450	140	310
Supplies	4,350	4,350	3,467	883
Other Operating Expense	2,985	2,985	1,154	1,831
Total Current	43,822	45,511	42,050	3,461
Capital Outlay	-	-	-	-
Total Animal Control	43,822	45,511	42,050	3,461
Highway and Streets:				
Current:				
Salaries and Employee Benefits	\$ 667,404	\$ 692,153	\$ 616,886	\$ 75,267
Supplies	66,000	66,156	60,740	5,416
Utilities	14,900	14,900	14,720	180
Repairs and Maintenance	34,000	34,000	53,086	(19,086)
Other Operating Expenses	5,250	5,250	5,268	(18)
State Street Aid:				
Street Repair Materials	187,500	187,500	172,322	15,178
Street Lighting, Signs and Signals	231,500	231,500	265,905	(34,405)
Tornado Expenses	-	-	38,849	(38,849)
Total Current	1,206,554	1,231,459	1,227,775	3,684
Capital Outlay	174,861	471,719	446,769	24,950
Total Highway and Streets	1,381,415	1,703,178	1,674,544	28,634

See auditors' report and notes to required supplementary information.

CITY OF GALLATIN, TENNESSEE  
Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual, Continued  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance with Final
	Original	Final	Actual	Final
General Government Expenditures, Continued:				
Public Works:				
Current:				
Salaries and Employee Benefits	121,605	129,485	132,003	(2,519)
Repairs and Maintenance	700	700	2,245	(1,545)
Supplies	3,000	3,000	2,375	625
Tornado Expense	-	-	272	(272)
Other Operating Expenses	3,379	3,379	2,334	1,045
Total Current	128,684	136,564	139,229	(2,666)
Capital Outlay	546,719	553,180	28,383	524,797
Total Public Works	675,403	689,743	167,612	522,131
Parks and Recreation:				
Current:				
Salaries and Employee Benefits	808,949	870,792	857,296	13,496
Contractual Services	30,000	30,000	23,934	6,066
Utilities	94,700	94,700	86,101	8,599
Repairs and Maintenance	45,500	45,500	44,669	831
Supplies	213,800	221,300	265,785	(44,485)
Tornado Expense	-	-	864	(864)
Other Operating Expenses	14,600	14,600	8,980	5,620
Civic Center:				
Salaries and Employee Benefits	460,438	471,433	501,688	(30,255)
Contractual Services	55,000	55,000	58,050	(3,050)
Utilities	180,600	180,600	201,360	(20,760)
Supplies	96,300	96,300	87,340	8,960
Repairs and Maintenance	65,000	92,262	87,669	4,593
Other Operating Expenses	10,770	10,770	7,565	3,205
Total Current	2,075,657	2,183,257	2,231,300	(48,043)
Capital Outlay	964,877	964,877	785,976	178,901
Total Parks and Recreation	3,040,534	3,148,134	3,017,277	130,858
Engineering:				
Current:				
Salaries and Employee Benefits	264,431	283,823	283,409	414
Contractual Services	10,000	10,000	2,500	7,500
Supplies	4,150	4,150	4,452	(302)
Repairs and Maintenance	400	400	797	(397)
Tornado Expense	-	-	2,164	(2,164)
Other Operating Expenses	11,500	11,500	11,115	385
Total Current	290,481	309,873	304,437	5,436
Capital Outlay	2,026,336	2,301,560	897,366	1,404,193
Total Engineering	2,316,817	2,611,433	1,201,803	1,409,630
Community Services:				
Current:				
Appropriations to Non-Profit Organizations	65,000	66,750	65,000	1,750
Grants and Donations	92,500	123,000	117,250	5,750
Utilities	-	-	46	(46)
Total Current	157,500	189,750	182,296	7,454
Capital Outlay	-	-	-	-
Total Community Services	157,500	189,750	182,296	7,454
Vehicle Maintenance:				
Current:				
Salaries and Employee Benefits	\$ 196,158	\$ 205,957	\$ 189,019	\$ 16,938
Utilities	9,536	9,536	18,803	(9,267)
Supplies	125,000	125,000	98,609	26,391
Repairs and Maintenance	5,300	5,300	1,967	3,333
Other Operating Expenses	2,644	2,644	3,308	(664)
Total Current	338,638	348,437	311,705	36,732
Capital Outlay	-	-	2,427	(2,427)
Total Vehicle Maintenance	338,638	348,437	314,132	34,305
Debt Service	877,245	877,245	877,245	-

See auditors' report and notes to required supplementary information.



CITY OF GALLATIN, TENNESSEE  
Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual, Continued  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final
	Original	Final		
Capital Outlay- Contingences	(46,719)	35,281	-	35,281
Total Expenditures	20,771,663	22,625,804	19,424,238	3,201,567
Excess of Revenues Over (Under) Expenditures	(2,345,978)	(4,000,840)	(326,727)	3,674,114
Other Financing Sources (Uses)				
Contributions	106,500	108,411	92,070	(16,341)
Insurance Proceeds	20,000	96,930	77,410	(19,520)
Operating Transfers In (Out)	(1,266,191)	(1,201,632)	(954,577)	247,056
Borrowings on Notes	-	-	-	-
Sales of Capital Assets	5,000	5,000	-	(5,000)
Total Other Financing Sources (Uses)	(1,134,691)	(991,292)	(785,097)	206,195
Net Change in Fund Balances	(3,480,669)	(4,992,132)	(1,111,823)	3,880,309
Fund Balances - July 1, 2005	9,276,034	9,276,034	9,276,034	9,276,034
Prior Period Adjustment	-	-	121,181	121,181
Fund Balances - June 30, 2006	<u>\$ 5,795,365</u>	<u>\$ 4,283,902</u>	<u>\$ 8,285,392</u>	<u>\$ 13,277,524</u>

See auditors' report and notes to required supplementary information.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**Environmental Services Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>			<u>Positive (Negative) Variance with Final</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Charges for Services	\$ 450,200	\$ 450,200	\$ 498,660	\$ 48,460
Miscellaneous:				
Sale of Supplies	35,000	35,000	41,933	6,933
Other Revenue	-	407	624	217
Total Revenues	<u>485,200</u>	<u>485,607</u>	<u>541,217</u>	<u>55,610</u>
<b>Expenditures</b>				
Current:				
Salaries, Wages and Employee Benefits	572,332	595,419	528,957	66,462
Contractual Services	2,500	2,500	2,088	412
Repairs and Maintenance	101,100	101,594	126,843	(25,249)
Sumner County Resource Authority:				
Tipping Fees	440,000	440,000	467,434	(27,434)
Contractual Assessment	450,000	450,000	508,832	(58,832)
Supplies	42,520	42,520	47,851	(5,331)
Utilities	7,150	7,150	7,819	(669)
Insurance	41,000	41,000	37,030	3,970
Other Current Operating	2,647	2,647	6,747	(4,100)
Tornado Expenses	-	-	321,764	(321,764)
Miscellaneous	-	-	-	-
Capital Outlay	97,642	97,642	96,717	925
Total Expenditures	<u>1,756,891</u>	<u>1,780,472</u>	<u>2,152,082</u>	<u>(371,610)</u>
Excess of Revenues Over (Under) Expenditures	(1,271,691)	(1,294,865)	(1,610,865)	(316,000)
<b>Other Financing Sources (Uses)</b>				
Insurance Proceeds	-	-	246,267	246,267
Operating Transfers In (Out)	1,271,691	1,279,672	1,358,603	78,931
Total Other Financing Sources (Uses)	<u>1,271,691</u>	<u>1,279,672</u>	<u>1,604,870</u>	<u>325,198</u>
<b>Net Change in Fund Balances</b>	-	(15,193)	(5,995)	9,198
<b>Fund Balance - July 1, 2005</b>	<u>28,520</u>	<u>28,520</u>	<u>28,520</u>	<u>-</u>
<b>Fund Balance - June 30, 2006</b>	<u>\$ 28,520</u>	<u>\$ 13,327</u>	<u>\$ 22,525</u>	<u>\$ 9,198</u>

See auditors' report and notes to required supplementary information.

**City of Gallatin, Tennessee**  
**Notes to Required Supplementary Information**  
**June 30, 2006**

**Note 1. Budget Basis**

Budgets for the General Fund and Special Revenue Funds are adopted on the modified accrual basis consistent with generally accepted accounting principles (GAAP).

**Note 2. Budget Policies and Procedures**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Prior to year end, the Director of Finance and Mayor submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
- B. Public hearings are conducted to obtain taxpayer comments on the budget.
- C. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- D. The Department Heads are authorized to transfer budgeted amounts within their departments; however, any revisions that alter the total expenditures of any department function or fund must be approved by the City Council.
- E. Formal Budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Fund.
- F. Budgeted amounts are as originally adopted, or as amended by the City Council. Budget appropriations lapse at year end.

**Note 3. Budget Overages**

As of June 30, 2006, the following budget overages were noted. Funding of any deficiencies is the ultimate responsibility of the City of Gallatin, Tennessee.

<b>Fund/Department</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Overage</b>
City Administration	541,238	588,168	(46,931)
Environmental Services Fund	1,780,472	2,152,082	(371,610)
Drug Fund	120,000	125,960	(5,960)

See auditors' report.

CITY OF GALLATIN, TENNESSEE  
Combining Balance Sheet  
Non-major Governmental Funds  
June 30, 2006

	Permanent Funds					Total Non-major Governmental Funds
	Thomas A.					
	Special Revenue Funds	Capital Projects Funds		Witherspoon Educational Memorial Trust Fund	Cemetery Trust Fund	
	Drug Fund	West Eastland Park Fund	Industrial Park Fund			
Assets						
Cash and Cash Equivalents	\$ 229,935	\$ -	\$ 582,807	\$ 57,769	\$ 510	\$ 871,020
Receivables, net	-	-	203,039	253,868	-	456,907
Due From Other Funds	-	-	-	-	-	-
Construction in Progress	-	-	-	-	-	-
Inventory	-	-	-	-	-	-
Restricted Cash and Cash Equivalents	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Total Assets	\$ 229,935	\$ -	\$ 785,846	\$ 311,637	\$ 510	\$ 1,327,927
Liabilities and Fund Equity						
Liabilities						
Accounts Payable	\$ 19,189	\$ -	\$ -	\$ -	\$ -	\$ 19,189
Due To Other Funds	-	-	313,010	-	-	313,010
Accrued Liabilities	36,500	-	-	-	-	36,500
Total Liabilities	\$ 55,689	\$ -	\$ 313,010	\$ -	\$ -	\$ 368,698
Fund Balances						
Unreserved:						
Designated for Specific Projects	174,246	-	472,836	296,637	510	944,228
Reserved For:						
Inventory	-	-	-	-	-	-
Endowments	-	-	-	15,000	-	15,000
Total Fund Balances	174,246	-	472,836	311,637	510	959,228
Total Liabilities and Fund Balances	\$ 229,935	\$ -	\$ 785,846	\$ 311,637	\$ 510	\$ 1,327,927

## CITY OF GALLATIN, TENNESSEE

## Permanent Funds

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**Special Revenue Fund - Drug Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance with Final</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Fines and Fees	\$ 120,000	\$ 120,000	\$ 135,356	\$ 15,356
Interest Earnings	-	-	1,353	1,353
Total Revenues	<u>120,000</u>	<u>120,000</u>	<u>136,709</u>	<u>16,709</u>
<b>Expenditures</b>				
Current:				
Program Costs	<u>120,000</u>	<u>120,000</u>	<u>125,960</u>	<u>(5,960)</u>
Total Expenditures	<u>120,000</u>	<u>120,000</u>	<u>125,960</u>	<u>(5,960)</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>10,749</u>	<u>10,749</u>
<b>Net Change in Fund Balances</b>	<u>-</u>	<u>-</u>	<u>10,749</u>	<u>10,749</u>
<b>Fund Balance - July 1, 2005</b>	<u>163,497</u>	<u>163,497</u>	<u>163,497</u>	<u>-</u>
<b>Fund Balance - June 30, 2006</b>	<u>\$ 163,497</u>	<u>\$ 163,497</u>	<u>\$ 174,246</u>	<u>\$ 10,749</u>

See auditors' report.

**Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
Capital Projects Fund - Industrial Park Fund  
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance with Final</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Interest Earnings	\$ 3,500	\$ 3,500	\$ 12,559	\$ 9,059
Sale of Land	700	700	503,460	\$ 502,760
Total Revenues	<u>4,200</u>	<u>4,200</u>	<u>516,019</u>	<u>511,819</u>
<b>Expenditures</b>				
Current:				
Legal Services	1,200	38,180	-	38,180
Capital Outlay	-	332,817	100,000	232,817
Total Expenditures	<u>1,200</u>	<u>370,997</u>	<u>100,000</u>	<u>270,997</u>
Excess of Revenues Over (Under) Expenditures	3,000	(366,797)	416,019	782,816
<b>Other Financing Sources (Uses)</b>				
Borrowings on Debt	-	-	-	-
Insurance Proceeds	-	-	-	-
Operating Transfers In (Out)	(3,000)	(3,000)	(312,980)	(309,980)
Total Other Financing Sources (Uses)	<u>(3,000)</u>	<u>(3,000)</u>	<u>(312,980)</u>	<u>(309,980)</u>
<b>Net Change in Fund Balances</b>	-	(369,797)	103,039	472,836
<b>Fund Balance - July 1, 2005</b>	<u>369,797</u>	<u>369,797</u>	<u>369,797</u>	<u>-</u>
<b>Fund Balance - June 30, 2006</b>	<u>\$ 369,797</u>	<u>\$ (0)</u>	<u>\$ 472,836</u>	<u>\$ 472,836</u>

See auditors' report.

**Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual Non-major Permanent Funds  
Thomas A. Witherspoon Educational Memorial Trust Fund  
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance with Final</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Interest Earnings on Savings	\$ 1,500	\$ 1,500	\$ 2,235	\$ 735
Interest Earnings on Educational Loans	5,000	5,000	7,511	\$ 2,511
Total Revenues	<u>6,500</u>	<u>6,500</u>	<u>9,747</u>	<u>3,247</u>
<b>Expenditures</b>				
Current:				
Legal Services	250	250	-	250
Bad Debts	-	-	(430)	430
Total Expenditures	<u>250</u>	<u>250</u>	<u>(430)</u>	<u>680</u>
Excess of Revenues Over (Under) Expenditures	<u>6,250</u>	<u>6,250</u>	<u>10,177</u>	<u>3,927</u>
<b>Net Change in Fund Balances</b>	<u>6,250</u>	<u>6,250</u>	<u>10,177</u>	<u>3,927</u>
<b>Fund Balance - July 1, 2005</b>	<u>301,460</u>	<u>301,460</u>	<u>301,460</u>	<u>-</u>
<b>Fund Balance - June 30, 2006</b>	<u>\$ 307,710</u>	<u>\$ 307,710</u>	<u>\$ 311,637</u>	<u>\$ 3,927</u>

See auditors' report.



**Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual Non-major Permanent Funds  
Cemetery Trust Fund  
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>			<b>Positive (Negative) Variance with Final</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Interest Earnings	\$ 2,500	\$ 2,500	\$ 3,231	\$ 731
Total Revenues	<u>2,500</u>	<u>2,500</u>	<u>3,231</u>	<u>731</u>
<b>Expenditures</b>				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>2,500</u>	<u>2,500</u>	<u>3,231</u>	<u>731</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In (Out)	(2,500)	(2,500)	(3,231)	(731)
Total Other Financing Sources (Uses)	<u>(2,500)</u>	<u>(2,500)</u>	<u>(3,231)</u>	<u>(731)</u>
<b>Net Change in Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - July 1, 2005</b>	<u>510</u>	<u>510</u>	<u>510</u>	<u>-</u>
<b>Fund Balance - June 30, 2006</b>	<u>\$ 510</u>	<u>\$ 510</u>	<u>\$ 510</u>	<u>\$ -</u>

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Expenditures of Federal and State Financial Assistance**  
**For the Year Ended June 30, 2006**

<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Program Name</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<b>Federal Awards</b>						
Local Law Enforcement Block Grant	16.592	Police Salary Supplement	\$ -	26,454	(26,454)	\$ -
Local Law Enforcement Block Grant	16.592	Fire Salary Supplement	-	13,300	(13,300)	-
TLPR/TRTP	-	TLPR/TRTP	-	236,904	(236,904)	-
US Department of Housing	14.228	Home Grant	(103,689)	115,964	(12,275)	-
National Parks Service	-	National Parks Service	-	7,774	(7,774)	-
US Department of Justice	16.592	TIIP Grant	-	30,940	(30,940)	-
Federal Emergency Management Agency	97.036	Federal Grant - Katrina	-	24,771	(24,771)	-
US Department of Justice	16.592	Local Law Enforcement	-	35,231	(35,231)	-
Total Federal Awards			(103,689)	491,338	(387,649)	-
<b>State Financial Assistance</b>						
TN Dept of Environment	Z05-022-816-00	Concrete Walking Trail	(32,115)	-	32,115	-
TN Dept of Environment	Z02-005137-00	LPRF Grant	(65,848)	-	65,848	-
Total State Financial Assistance			(97,963)	-	97,963	-
Total Federal Awards and State Financial Assistance			\$ (201,652)	\$ 491,338	\$ (289,686)	\$ -

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Financial Assistance summarizes the expenditures of the City of Gallatin, Tennessee under the programs of the federal and state governments for the year ended June 30, 2006. The schedule is presented using the modified accrual basis of accounting.

**Note 2. Non-Cash Assistance**

For the year ended June 30, 2006, there were no Federal or State awards expended in the form of non-cash assistance.

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Long-Term Debt, Principal, and Interest Requirements**  
**By Fiscal Year**  
**June 30, 2006**

Fiscal Year Ended June 30,	Governmental Activities					
	General Obligation Refunding Bonds - 1999		General Obligation Public Improvement Bonds - 1997		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	435,000	17,400	340,000	72,645	775,000	90,045
2008	-	-	335,000	65,895	335,000	65,895
2009	-	-	325,000	58,889	325,000	58,889
2010	-	-	325,000	51,170	325,000	51,170
2011	-	-	315,000	42,776	315,000	42,776
2012	-	-	310,000	34,570	310,000	34,570
2013	-	-	350,000	25,883	350,000	25,883
2014	-	-	345,000	15,895	345,000	15,895
2015	-	-	335,000	5,360	335,000	5,360
Total	\$ 435,000	\$ 17,400	\$ 2,980,000	\$ 373,083	\$ 3,415,000	\$ 390,483

Fiscal Year Ended June 30,	Business-Type Activities					
	Water & Sewer Revenue & Tax Bonds - 2004		Water & Sewer Revenue & Tax Bonds - 2003		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	350,000	100,256	195,000	180,027	545,000	280,283
2008	340,000	93,356	200,000	174,176	540,000	267,532
2009	335,000	86,188	205,000	168,176	540,000	254,364
2010	330,000	78,294	210,000	162,026	540,000	240,320
2011	325,000	69,700	215,000	155,726	540,000	225,426
2012	315,000	61,294	220,000	148,739	535,000	210,033
2013	310,000	53,094	230,000	141,589	540,000	194,683
2014	305,000	44,256	235,000	130,089	540,000	174,345
2015	300,000	34,881	245,000	119,808	545,000	154,689
2016	295,000	25,103	255,000	110,988	550,000	136,091
2017	290,000	15,050	265,000	101,553	555,000	116,603
2018	285,000	4,988	275,000	91,483	560,000	96,471
2019			285,000	80,757	285,000	80,757
2020			300,000	69,358	300,000	69,358
2021			310,000	57,058	310,000	57,058
2022			325,000	44,038	325,000	44,038
2023			340,000	30,063	340,000	30,063
2024			355,000	15,443	355,000	15,443
Total	\$ 3,780,000	\$ 666,460	\$ 4,665,000	\$ 1,981,097	\$ 8,445,000	\$ 2,647,557

Fiscal Year Ended June 30,	Total	
	Total Business-Type & Governmental Activities	
	Principal	Interest
2007	1,320,000	370,328
2008	875,000	333,427
2009	865,000	313,253
2010	865,000	291,490
2011	855,000	268,202
2012	845,000	244,603
2013	890,000	220,566
2014	885,000	190,240
2015	880,000	160,049
2016	550,000	136,091
2017	555,000	116,603
2018	560,000	96,471
2019	285,000	80,757
2020	300,000	69,358
2021	310,000	57,058
2022	325,000	44,038
2023	340,000	30,063
2024	355,000	15,443
Total	\$ 11,860,000	\$ 3,038,040

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Property Tax Rates and Assessments**  
**Last Ten Fiscal Years**

<u>Year of Levy</u>	<u>Tax Rate Per \$100 City</u>	<u>Total Assessed Value</u>
2005	1.12	\$ 6,286,061
2004	1.12	5,887,040
2003	1.12	5,613,048
2002	1.32	5,444,722
2001	1.32	5,159,201
2000	1.32	4,853,452
1999	1.32	4,603,052
1998	1.32	4,221,163
1997	1.39	3,717,427
1996	1.39	3,559,461

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Schedule of Uncollected Delinquent Taxes Filed**  
**June 30, 2006**

<b>Year of Levy</b>	<b>Gross Property Taxes Receivable June 30, 2006</b>
2005	\$ 262,414
2004	56,354
2003	43,987
2002	53,310
2001	43,228
2000	9,745
1999	11,115
1998	14,423
1997	14,582
1996	12,973
1995	3,540
	<hr/>
Totals	<u><u>\$ 525,671</u></u>

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Electric Rate Structure and Customer Information**  
**For the Year Ended June 30, 2006**

**GSC (Demand from 15,001 to 25,000 kW)**

Customer charge per month	\$1,500
Demand charge	\$13 per kW
Energy charge:	
First 620 kWh	0.03588
Additional kWh	0.02928

**MSC (Demand from 15,001 to 25,000 kW)**

Customer charge per month	\$1,500
Demand charge	\$1,500
Energy charge:	
First 620 kWh	0.02901
Additional kWh	0.02368

**GSD (Demand over 25,000 kW)**

Customer charge per month	\$1,500
Demand charge	\$15.89 per kW
Energy charge:	
All kWh	0.02877

**MSD (Demand over 25,000 kW)**

Customer charge per month	\$1,500
Demand charge	\$12.90 per kW
Energy charge:	
All kWh	0.02325

**Outdoor Lighting (including pole)**

100 Watt H.P.S.	\$7.94
150 Watt H.P.S.	\$10.57
175 Watt M.V.	\$7.91
250 Watt H.P.S.	\$12.93
400 Watt H.P.S.	\$16.08

**Number of Customers at Year End:**

Residential	11,038
Commercial	2,330
Street and athletic fields	42
Individually billed outdoor lighting	38
Total	<u>13,448</u>

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Gas Rate Structure and Customer Information**  
**For the Year Ended June 30, 2006**

**Rates**

Residential and Commerical Rates		
	Outside	Inside
First 200 Cubic Feet	\$3.85 minimum	\$3.50 minimum
All Usage Over 200 Cubic Feet	\$1.18/ccf	\$1.07/ccf
Industrial Rates		
All Usage	\$1.07/ccf	
Preferred Interruptible Rates		
All Usage	\$.95/ccf	
Interruptible Rates		
First 100,000 Cubic Feet		\$.85/ccf
All Usage Over 100,000 Cubic Feet		\$.80/ccf
Residential Gas Connection Fee		
	Outside	Inside
	\$125	\$100

**Number of Customers**

<b>Class of Service</b>	<b>Customers</b>	
	<b>2006</b>	<b>2005</b>
Residential	9,409	8,979
Commercial	1,117	1,098
Industrial	56	56
Interruptible	5	5
Total	10,587	10,138

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Source**  
**June 30, 2006**

**Governmental Fund Capital Assets:**

Land	\$ 3,359,248	
Buildings	6,923,350	
Improvements Other Than Buildings	2,574,258	
Machinery and Equipment	929,399	
Vehicles	1,931,555	
Infrastructure	18,215,495	
Total Governmental Funds Capital Assets	<u>                    </u>	<u>\$ 33,933,306</u>

**Investment in Governmental Funds Capital Assets by Source:**

General Fund	\$ 33,696,601	
Special Revenue Funds	236,705	
Total Investment in Governmental Funds Capital Assets	<u>                    </u>	<u>\$ 33,933,306</u>

See auditors' report.



CITY OF GALLATIN, TENNESSEE  
Capital Assets Used in the Operation of Governmental Funds  
Schedule By Function and Activity  
June 30, 2006

Function and Activity	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Vehicles	Infrastructure	Total
<b>General Government</b>							
Administration and Other	\$ 1,371,374	\$ 1,155,858	\$ -	\$ 14,206	\$ -	\$ -	\$ 2,541,437
Finance	-	732	-	706	-	-	1,438
City Recorder	-	-	-	8,641	-	-	8,641
Planning	1,900	4,748	96,728	400	-	24,933	128,709
Codes	-	-	1,200	360	20,804	-	22,364
General Government Buildings	-	141,457	232	59	1,500	1,140	144,388
<b>Public Safety</b>							
Police Department	90,201	472,912	-	177,155	312,952	-	1,053,220
Fire Department	56,383	792,941	246	111,591	862,952	-	1,824,113
<b>Animal Control</b>	-	-	-	-	-	-	-
<b>Highways, Streets and Roadways</b>	17,471	38,854	22,875	123,487	353,237	16,120,490	16,676,414
<b>Public Works</b>	-	10,688	-	30,915	18,684	-	60,287
<b>Environmental Services</b>	-	-	-	532	262,407	-	262,939
<b>Parks and Recreation</b>	1,294,514	4,300,464	2,440,004	446,921	55,401	661,278	9,198,582
<b>Engineering</b>	527,406	2,327	12,974	8,634	-	1,229,171	1,780,511
<b>Community Services</b>	-	-	-	-	-	-	-
<b>Economic Development</b>	-	1,084	-	3,904	26,060	178,483	209,530
<b>Vehicle Maintenance</b>	-	1,286	-	1,889	17,559	-	20,735
<b>Total Governmental Funds Capital Assets</b>	<u>\$ 3,359,248</u>	<u>\$ 6,923,350</u>	<u>\$ 2,574,258</u>	<u>\$ 929,399</u>	<u>\$ 1,931,555</u>	<u>\$ 18,215,495</u>	<u>\$ 33,933,306</u>

See auditors' report.

CITY OF GALLATIN, TENNESSEE  
Capital Assets Used in the Operation of Governmental Funds  
Schedule of Changes by Function and Activity  
For the Year Ended June 30, 2006

Function and Activity	Governmental Funds Capital Assets 7/1/2005	Additions	Deductions	Governmental Funds Capital Assets 6/30/2006
<b>General Government</b>				
Administration and Other	\$ 2,319,141	\$ 657,233	\$ (434,937)	\$ 2,541,437
Finance	1,457	-	(19)	1,438
City Recorder	8,641	-	-	8,641
Planning	112,846	16,124	(261)	128,708
Codes	6,961	17,114	(1,711)	22,364
General Government Buildings	140,615	3,822	(49)	144,388
<b>Public Safety</b>				
Police Department	1,027,525	270,685	(244,990)	1,053,220
Fire Department	1,026,201	1,024,316	(226,405)	1,824,112
<b>Animal Control</b>	-	-	-	-
<b>Highways, Streets and Roadways</b>	15,411,042	1,715,425	(450,053)	16,676,415
<b>Public Works</b>	49,067	28,383	(17,163)	60,287
<b>Environmental Services</b>	243,201	96,717	(76,979)	262,939
<b>Parks and Recreation</b>	8,762,841	830,835	(395,094)	9,198,583
<b>Engineering</b>	1,100,190	718,887	(38,567)	1,780,510
<b>Community Development</b>	-	-	-	-
<b>Economic Development</b>	82,249	130,987	(3,706)	209,531
<b>Vehicle Maintenance</b>	(965)	21,937	(239)	20,733
<b>Total Governmental Funds Capital Assets</b>	<u>\$ 30,291,012</u>	<u>\$ 5,532,466</u>	<u>\$ (1,890,172)</u>	<u>\$ 33,933,306</u>

See auditors' report.

## Statistical Tables

**CITY OF GALLATIN, TENNESSEE**  
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CITY OF GALLATIN, TENNESSEE  
Net Assets by Component  
Last Ten Fiscal Years

	Fiscal Year									
	2006	2005	2004	2003	2002*	2001*	2000*	1999*	1998*	1997*
<b>Governmental Activities</b>										
Invested in Capital Assets, Net of Related Debt	\$ 30,858,306	\$ 26,282,195	\$ 23,340,840	\$ 20,324,988	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	15,000	922,957	538,645	805,060	-	-	-	-	-	-
Unrestricted	8,339,620	8,957,037	9,628,934	9,607,473	-	-	-	-	-	-
<b>Total Governmental Activities Net Assets</b>	<b>\$ 39,212,926</b>	<b>\$ 36,162,189</b>	<b>\$ 33,508,418</b>	<b>\$ 30,737,521</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Business-Type Activities</b>										
Invested in Capital Assets, Net of Related Debt	\$ 78,646,271	\$ 71,055,638	\$ 67,885,890	\$ 65,065,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	20,545,976	17,055,143	14,082,726	11,194,194	-	-	-	-	-	-
<b>Total Business-Type Activities Net Assets</b>	<b>\$ 99,192,247</b>	<b>\$ 88,110,781</b>	<b>\$ 81,968,616</b>	<b>\$ 76,260,086</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Primary Government</b>										
Invested in Capital Assets, Net of Related Debt	\$ 109,504,577	\$ 97,337,833	\$ 91,226,730	\$ 85,390,880	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	15,000	922,957	538,645	805,060	-	-	-	-	-	-
Unrestricted	28,885,596	26,012,180	23,711,660	20,801,667	-	-	-	-	-	-
<b>Total Primary Government Net Assets</b>	<b>\$ 138,405,173</b>	<b>\$ 124,272,970</b>	<b>\$ 115,477,035</b>	<b>\$ 106,997,607</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

\*Fixed Asset Information was not available prior to 2003.

**CITY OF GALLATIN, TENNESSEE**  
**Changes in Net Assets**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<b>Expenses</b>										
Governmental Activities:										
General Government	\$ 3,244,668	\$ 3,334,894	2,881,670	2,865,332	-	-	-	-	-	-
Public Safety	7,710,413	6,756,172	6,246,794	6,076,879	-	-	-	-	-	-
Animal Control	42,050	40,235	29,453	43,104	-	-	-	-	-	-
Highways, Streets and Roadways	1,677,828	1,669,388	1,454,630	978,133	-	-	-	-	-	-
Public Works	156,392	138,488	146,935	120,399	-	-	-	-	-	-
Environmental Services	2,132,344	1,918,049	1,808,843	1,725,197	-	-	-	-	-	-
Parks and Recreation	2,579,035	2,404,761	2,402,647	2,276,060	-	-	-	-	-	-
Engineering	521,482	413,530	447,373	102,101	-	-	-	-	-	-
Community Services	182,296	195,591	154,673	160,383	-	-	-	-	-	-
Vehicle Maintenance	202,705	302,551	315,462	379,949	-	-	-	-	-	-
Interest on Long-term Debt	311,944	94,489	291,139	299,324	-	-	-	-	-	-
Total Governmental Activities Expenses	<u>18,761,158</u>	<u>17,268,147</u>	<u>16,179,619</u>	<u>15,026,861</u>	-	-	-	-	-	-
Business-type Activities:										
Water and Sewer	-	5,842,660	5,441,054	5,254,474	-	-	-	-	-	-
Natural Gas	42,349,573	16,953,730	13,980,974	13,189,500	-	-	-	-	-	-
Electric Power	23,127,731	36,874,016	36,623,921	34,634,951	-	-	-	-	-	-
Golf	911,803	913,014	896,171	840,283	-	-	-	-	-	-
Total Business-type Activities Expenses	<u>66,389,207</u>	<u>60,583,420</u>	<u>56,942,120</u>	<u>53,919,208</u>	-	-	-	-	-	-
Total Primary Government Expenses	<u>\$ 85,150,365</u>	<u>\$ 77,851,567</u>	<u>\$ 73,121,739</u>	<u>\$ 68,946,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Program Revenues</b>										
Governmental Activities:										
Charges for Services	\$ -	\$ 2,751,837	2,225,531	2,204,828	-	-	-	-	-	-
Operating Grants and Contributions	-	869,005	1,157,765	1,061,975	-	-	-	-	-	-
Capital Grants and Contributions	-	1,722,591	1,321,300	-	-	-	-	-	-	-
Total Governmental Activities Program Revenues	<u>-</u>	<u>5,343,433</u>	<u>4,704,596</u>	<u>3,266,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-Type Activities:										
Charges for Services:										
Water and Sewer	-	7,169,618	6,656,003	5,994,756	-	-	-	-	-	-
Natural Gas	44,282,807	18,422,895	14,798,256	13,806,592	-	-	-	-	-	-
Electric Power	23,671,087	38,038,137	38,072,015	35,594,644	-	-	-	-	-	-
Golf	709,746	685,421	767,500	677,546	-	-	-	-	-	-
Operating Grants and Contributions	-	-	-	-	-	-	-	-	-	-
Capital Grants and Contributions	7,450,311	2,800,442	2,992,366	1,884,772	-	-	-	-	-	-
Total Business-Type Activities Program Revenues	<u>76,113,951</u>	<u>67,116,513</u>	<u>63,286,140</u>	<u>57,958,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government Program Revenues	<u>\$ 76,113,951</u>	<u>\$ 72,459,946</u>	<u>\$ 67,990,736</u>	<u>\$ 61,225,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Net (Expense)/Revenue</b>										
Governmental Activities	<u>\$(18,761,158)</u>	<u>\$(11,924,714)</u>	<u>\$(11,475,023)</u>	<u>\$(11,760,058)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-Type Activities	<u>9,724,744</u>	<u>6,533,093</u>	<u>6,344,020</u>	<u>4,039,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government Net Expense	<u>\$ (9,036,414)</u>	<u>\$ (5,391,621)</u>	<u>\$ (6,131,003)</u>	<u>\$ (7,720,956)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental Activities:										
Property and Personality Taxes	\$ -	\$ 5,987,978	\$ 5,724,233	\$ 6,601,113	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payment in Lieu of Tax	6,354,160	-	-	-	-	-	-	-	-	-
Income and Excise Taxes	201,091	1,409,098	1,331,015	1,230,562	-	-	-	-	-	-
Sales Taxes	220,822	4,154,177	3,876,075	3,916,658	-	-	-	-	-	-
Gasoline Tax	6,154,339	-	-	-	-	-	-	-	-	-
Alcoholic Beverage Taxes	-	-	-	-	-	-	-	-	-	-
Business Taxes	875,523	-	-	-	-	-	-	-	-	-
Hospitality Taxes	388,283	-	-	-	-	-	-	-	-	-
Miscellaneous State Taxes	248,792	1,896,131	1,966,921	2,048,212	-	-	-	-	-	-
Unrestricted Investment Earnings	8,970	151,986	98,936	114,238	-	-	-	-	-	-
Rental Income	234,794	-	-	-	-	-	-	-	-	-
Sale of Capital Assets	590,320	-	54,954	642,330	-	-	-	-	-	-
Miscellaneous	323,677	132,450	246,208	101,002	-	-	-	-	-	-
Transfers, Net	93,441	846,667	830,636	(723,756)	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-	-	-	-
Operating Grants and Contributions	-	-	-	-	-	-	-	-	-	-
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-	-
Total Governmental Activities	<u>15,694,210</u>	<u>14,578,487</u>	<u>14,128,978</u>	<u>13,930,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-Type Activities:										
Unrestricted Investment Earnings	-	455,739	199,264	212,131	-	-	-	-	-	-
Transfers, Net	-	(846,667)	(830,636)	723,756	-	-	-	-	-	-
Total Business-Type Activities	<u>-</u>	<u>(390,928)</u>	<u>(631,372)</u>	<u>935,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 15,694,210</u>	<u>\$ 14,187,559</u>	<u>\$ 13,497,606</u>	<u>\$ 14,866,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Net Assets</b>										
Governmental Activities	-	2,653,773	2,653,956	2,170,300	-	-	-	-	-	-
Business-Type Activities	-	6,142,165	5,712,648	4,974,989	-	-	-	-	-	-
Total Primary Government	<u>\$ -</u>	<u>\$ 8,795,938</u>	<u>\$ 8,366,604</u>	<u>\$ 7,145,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF GALLATIN, TENNESSEE**  
**Fund Balances - Governmental Funds**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	\$ 8,285,392	\$ 9,276,034	\$ 9,469,208	\$ 9,720,110	\$ 9,353,606	\$ 9,272,816	\$ 9,400,933	\$ 8,596,232	\$ 7,224,876	\$ 6,855,770
Total General Fund	\$ 8,285,392	\$ 9,276,034	\$ 9,469,208	\$ 9,720,110	\$ 9,353,606	\$ 9,272,816	\$ 9,400,933	\$ 8,596,232	\$ 7,224,876	\$ 6,855,770
All Other Governmental Funds										
Reserved	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Unreserved, reported in:										
Special Revenue Funds	196,772	192,017	105,662	106,183	103,385	81,916	115,670	101,482	47,457	-
Capital Projects Funds	472,836	457,490	454,291	454,544	573,096	760,706	434,002	475,081	1,996,491	(1,321,647)
Permanent Funds	297,147	286,970	278,070	270,381	261,737	261,511	246,462	232,325	218,822	204,827
Total All Other Governmental Funds	\$ 981,755	\$ 951,477	\$ 853,023	\$ 846,108	\$ 953,218	\$ 1,119,133	\$ 811,134	\$ 823,886	\$ 2,277,770	\$ (1,101,820)

**CITY OF GALLATIN, TENNESSEE**  
**Changes in Fund Balances - Governmental Funds**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Taxes	\$ 12,472,166	\$ 11,614,584	\$ 10,902,829	\$ 11,504,525	\$ 10,871,627	\$ 10,415,071	\$ 10,125,388	\$ 9,488,514	\$ 8,647,278	\$ 8,269,728
Licenses and Permits	529,282	504,675	344,087	335,201	262,153	161,999	191,366	286,283	213,364	139,523
Fines and Forfeitures	966,013	639,128	331,404	327,416	355,114	350,244	353,794	321,681	287,029	265,820
Charges for Services	1,455,320	1,422,581	947,669	1,419,183	1,239,250	1,304,047	1,237,674	1,190,060	1,127,745	1,065,739
Intergovernmental	3,136,744	2,768,336	3,260,883	3,171,790	3,370,511	3,071,242	3,214,863	3,104,117	2,330,394	2,674,171
Investment Income	234,794	151,986	98,936	114,238	183,892	402,527	424,948	336,060	285,807	210,840
Rental/Property Income	590,320	355,013	106,803	534,195	54,379	84,970	155,460	153,915	147,351	250,525
Miscellaneous Revenues	93,441	132,450	246,210	101,003	131,937	128,199	127,144	140,491	138,589	56,497
Total Revenues	19,478,080	17,588,753	16,238,821	17,507,551	16,468,863	15,918,299	15,830,639	15,023,121	13,177,557	12,932,643
Expenditures										
General Government	3,028,811	2,853,340	2,616,026	2,388,888	2,242,790	2,000,250	1,917,202	1,920,520	1,602,502	1,716,086
Public Safety	7,113,058	6,167,861	5,732,734	5,500,365	5,566,461	5,094,215	4,811,442	4,745,851	4,170,658	3,883,442
Animal Control	42,050	39,931	30,308	43,030	41,141	77,489	39,183	-	-	-
Highways and Streets	1,227,775	1,136,618	1,104,658	1,051,389	1,837,336	1,818,324	2,048,706	1,278,964	1,636,138	1,168,161
Public Works	139,229	126,064	119,260	111,496	117,729	161,092	211,786	207,386	186,472	172,097
Environmental Services	2,055,365	1,678,479	1,649,266	1,612,784	1,449,804	1,179,665	1,276,755	1,264,589	1,312,504	1,288,557
Other Community Services	182,296	195,591	154,673	160,383	165,862	300,312	163,701	165,640	169,423	178,283
Vehicle Maintenance	311,705	301,233	313,752	376,739	-	-	-	-	-	-
Engineering	482,915	306,312	307,489	311,187	234,065	207,054	-	-	-	-
Parks and Recreation	2,183,941	1,970,462	1,930,422	1,898,613	1,693,967	1,659,222	1,490,942	1,389,014	1,310,038	1,172,172
Economic Development Agency	188,989	-	-	-	-	-	-	-	-	-
Other Program Cost	125,960	50,339	30,457	32,395	24,956	58,504	33,910	14,999	12,199	-
Debt Service:										
Principal	760,000	750,000	1,734,712	953,568	922,022	955,466	951,808	840,228	1,006,393	1,191,718
Interest	117,245	141,346	279,742	216,588	360,513	352,047	370,706	625,871	312,017	421,158
Capital Outlay	3,832,929	2,812,563	1,830,114	2,412,116	1,726,318	2,415,932	1,737,648	1,266,664	1,660,687	2,573,786
Total Expenditures	21,802,278	18,530,139	17,833,609	17,049,541	16,382,964	16,279,552	15,053,797	13,739,726	13,379,031	13,765,460
Excess of Revenues Over (Under)	(2,324,198)	(941,386)	(1,594,788)	458,010	85,899	(361,253)	776,842	1,283,395	(201,474)	(832,817)
Expenditures										
Other Financing Sources (Uses)										
Contributions	-	-	-	-	-	-	-	-	-	-
Restatement	-	-	-	-	-	236,282	12,489	-	(180,669)	359,291
Forgiveness of Golf Course Debt	-	-	-	(723,756)	-	-	-	-	-	-
Bond Proceeds less refunding	-	-	41,661	-	-	-	-	-	553,358	919,611
Insurance Proceeds	-	-	-	-	-	-	-	-	-	-
Operating Transfers in (Out)	(404,027)	846,667	(274,229)	-	16,360	(36,900)	29,558	141,986	195,368	70,746
Total Other Financing Sources (Uses)	(404,027)	846,667	(232,568)	(723,756)	16,360	199,382	42,047	141,986	588,037	1,349,648
Net Change in Fund Balance	\$ (2,728,225)	\$ (94,719)	\$ (1,827,356)	\$ (265,746)	\$ 102,259	\$ (161,871)	\$ 818,889	\$ 1,425,381	\$ 366,563	\$ 516,831
Debt Service as a Percentage of Non-Capital Expenditures	4.9%	5.7%	12.6%	8.0%	8.8%	9.4%	9.9%	11.6%	11.3%	14.4%

**CITY OF GALLATIN, TENNESSEE**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2006	\$ 325,228,750	\$ 167,318,360	\$ 90,694,760	\$ 7,680,475	\$ 671,943,489	\$ 1.12	\$ 2,241,616,040	30.32%
2005	257,565,075	165,853,357	127,310,752	7,060,850	550,729,184	1.12	1,723,983,000	32.35%
2004	228,441,075	155,217,655	125,455,607	9,688,400	500,954,000	1.12	1,669,847,000	30.58%
2003	215,819,650	149,037,416	128,301,776	9,293,025	411,054,000	1.32	1,370,180,000	30.68%
2002	177,278,350	129,454,653	96,245,048	7,428,025	389,872,000	1.32	1,299,573,000	30.57%
2001	169,198,475	111,780,363	100,653,926	7,954,675	368,033,000	1.32	1,226,777,000	30.65%
2000	157,536,700	112,529,968	89,407,406	7,041,225	350,607,000	1.32	1,168,690,000	30.60%
1999	150,550,275	103,453,530	56,215,759	7,173,675	320,837,000	1.32	1,069,457,000	30.67%
1998	-	-	-	-	267,283,000	1.39	890,943,000	30.00%
1997	-	-	-	-	256,117,000	1.39	853,723,000	30.00%

**Source:** State Board of Equalization.

**Note:** Property is appraised in Tennessee with the following assessment ratios:

<u>Taxable Property</u>	<u>Legal Assessment Ratio</u>
Locally Assessed Real Property:	
Industrial and Commercial	40%
Residences and Farms	25%
Personal Tangible Property	30%
Agriculture, Open Space Land Act	25%
Locally Assessed Public Utility	55%

State assessed public utility assessments are equalized assessments certified by the Tennessee Public Service Commission. Public utility appraised values are calculated on the basis the public utility assessments average 55% of appraised value.

See auditors' report.



**CITY OF GALLATIN, TENNESSEE**  
**Direct and Overlapping Property Tax Rates**  
**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>City Direct Rate</u>		<u>Overlapping Rate</u>
	<u>Basic Rate</u>	<u>Total Direct</u>	<u>Sumner County</u>
2006	\$1.12	\$1.12	\$2.28
2005	1.12	1.12	2.59
2004	1.12	1.12	2.59
2003	1.32	1.32	2.54
2002	1.32	1.32	2.54
2001	1.32	1.32	2.54
2000	1.32	1.32	2.54
1999	1.32	1.32	2.42
1998	1.39	1.39	2.90
1997	1.39	1.39	2.90

**Source:** State Board of Equalization.

**Note:** Taxes are assessed as of January 1 and are due on October 1 for City and County. Taxes are delinquent on March 1 for City and County.

**CITY OF GALLATIN, TENNESSEE**  
**Principal Property Tax Payers**  
**Current Year and Nine Years Ago**

<b>2006</b>			
<b>Taxpayer</b>	<b>Taxable Assessed Value</b>	<b>Rank</b>	<b>Percentage of Total City Taxable Assessed Value</b>
The Gap	\$ 39,118,009	1	5.82%
Hoeganaes Corporation	21,538,844	2	3.21%
Donnelley Printing Company	12,821,544	3	1.91%
Stoneridge Farms	9,227,360	4	1.37%
Sumner Regional Hospital	8,729,949	5	1.30%
Bosch Braking Systems	8,115,064	6	1.21%
Bellsouth Telecommunications	5,774,289	7	0.86%
Bendix	4,908,758	8	0.73%
Wal-mart Supercenter	4,877,205	9	0.73%
Insteel Wire Products	4,120,557	10	0.61%
<b>Total</b>	<b>\$ 119,231,579</b>		<b>17.74%</b>
<b>1997</b>			
<b>Taxpayer</b>	<b>Taxable Assessed Value</b>	<b>Rank</b>	<b>Percentage of Total City Taxable Assessed Value</b>
Donnelley Printing Company	\$ 14,379,701	1	5.43%
Bosch Braking Systems	7,304,216	2	2.76%
Hoeganaes Corporation	6,729,914	3	2.54%
Insteel Wire Products	5,964,599	4	2.25%
Bellsouth Telecommunications	5,774,289	5	2.18%
G.F. Furniture Corporation	3,137,862	6	1.18%
Crescent Enterprises	3,098,971	7	1.17%
Bendix-Jidosha Kiki Corporation	2,556,676	8	0.96%
Gallatin Square	2,229,160	9	0.84%
Fleetwood	1,791,546	10	0.68%
<b>Total</b>	<b>\$ 52,966,934</b>		<b>19.98%</b>

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Taxes Levied for the Fiscal Year(a)</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2006	\$ 6,286,061	\$ 6,023,784	95.83%	\$ 144,187	\$ 6,167,971	98.12%
2005	5,887,040	5,732,482	97.40%	215,372	5,947,854	101.03%
2004	5,613,048	5,394,388	96.10%	192,497	5,586,885	99.53%
2003	5,444,722	5,196,914	95.40%	246,140	5,443,054	99.97%
2002	5,169,455	4,957,912	95.90%	179,616	5,137,528	99.38%
2001	4,853,452	4,641,392	95.60%	119,950	4,761,342	98.10%
2000	4,603,052	4,432,342	96.30%	110,050	4,542,392	98.68%
1999	4,221,163	4,090,178	96.90%	79,797	4,169,975	98.79%
1998	3,717,427	3,609,001	97.10%	100,827	3,709,828	99.80%
1997	3,559,461	3,453,926	97.00%	128,124	3,582,050	100.63%

**Source: (a) Per the Sumner County Tax Assessor's office**

**CITY OF GALLATIN, TENNESSEE**  
**Water Sold by Type of Customer**  
**Last Ten Fiscal Years**

Type of Customer	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Residential	3,469,476	3,358,216	3,022,187	2,582,648	2,425,164	2,259,452	2,197,766	2,119,931	1,101,348	1,124,986
Industrial	-	-	-	-	-	-	-	-	-	-
Commercial	697,085	748,850	672,222	561,478	410,448	413,536	193,843	292,784	1,289,578	1,200,941
Military	-	-	-	-	-	-	-	-	-	-
Government	388,501	394,422	352,882	323,332	264,611	197,147	193,843	155,808	-	-
<b>Total</b>	<b>4,555,062</b>	<b>4,501,488</b>	<b>4,047,291</b>	<b>3,467,458</b>	<b>3,100,223</b>	<b>2,870,135</b>	<b>2,585,452</b>	<b>2,568,523</b>	<b>2,390,926</b>	<b>2,325,927</b>
<b>Total Direct Rate</b>	<b>\$ 6.50</b>	<b>6.10</b>	<b>5.50</b>	<b>5.50</b>	<b>5.30</b>	<b>5.10</b>	<b>5.10</b>	<b>5.10</b>	<b>5.10</b>	<b>5.10</b>
<b>per 250 cu. ft.</b>										

**Source: David Gregory-Utility Superintendent**

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Water and Sewer Rates**  
**Last Ten Fiscal Years**

**Water**

Fiscal Year	Inside City Rates				Outside City Rates			
	First 250 Cubic Feet (minimum)	Next 750 Cubic Feet (per 100CF)	Next 2,000 Cubic Feet (per 100CF)	Next 3,000 Cubic Feet (per 100CF)	First 250 Cubic Feet (minimum)	Next 750 Cubic Feet (per 100CF)	Next 2,000 Cubic Feet (per 100CF)	Next 3,000 Cubic Feet (per 100CF)
2006	\$ 6.50	\$ 1.80	\$ 1.80	\$ 1.80	\$ 9.75	\$ 2.70	\$ 2.70	\$ 2.70
2005	6.10	1.70	1.70	1.70	9.15	2.55	2.55	2.55
2004	5.50	1.60	1.60	1.60	8.25	2.40	2.40	2.40
2003	5.50	1.50	1.40	1.40	8.25	2.25	2.10	2.10
2002	5.30	1.40	1.30	1.20	7.95	2.15	1.95	1.80
2001	5.10	1.30	1.20	1.00	7.65	1.95	1.80	1.50
2000	5.10	1.30	1.20	1.00	7.65	1.95	1.80	1.50
1999	5.10	1.30	1.20	1.00	7.65	1.95	1.80	1.50
1998	5.10	1.30	1.20	1.00	7.65	1.95	1.80	1.50
1997	5.10	1.60	1.20	1.00	7.65	1.95	1.80	1.50

**Sewer**

Fiscal Year	Inside City Rates				Outside City Rates			
	First 250 Cubic Feet (minimum)	Next 750 Cubic Feet (per 100CF)	Next 2,000 Cubic Feet (per 100CF)	Next 3,000 Cubic Feet (per 100CF)	First 250 Cubic Feet (minimum)	Next 750 Cubic Feet (per 100CF)	Next 2,000 Cubic Feet (per 100CF)	Next 3,000 Cubic Feet (per 100CF)
2006	\$ 6.50	\$ 1.80	\$ 1.80	\$ 1.80	\$ 9.75	\$ 2.70	\$ 2.70	\$ 2.70
2005	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
2004	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
2003	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
2002	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
2001	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
2000	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
1999	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
1998	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70
1997	6.50	1.80	1.80	1.80	9.75	2.70	2.70	2.70

**Notes:** The following is additional information:

Meter Size	Tapping Fees			
	Connection Fees		Installation Fees	
	Inside	Outside	Inside	Outside
5/8 x 3/4	\$ 300	\$ 350	\$ 200	\$ 250
1"	350	400	300	350
2"	700	800	1,000	1,500
4"	1,400	1,600	*	*
6"	1,700	1,900	*	*
8"	2,500	3,000	*	*
10"	4,000	5,000	*	*
12"	6,000	8,000	*	*

\* On meter sizes above 4", the developer shall be responsible for the entire cost of installation including materials, equipment and labor, as determined by the Water Department job cost records. Either the developer or the City may install the tap. If the developer installs the tap, it must be according to the City's material and inspection specifications.

**Inspection Fee:** \$25  
Sewer Connection

**Private Fire Protection:**  
Service to Private Hydrant See auditors' report. \$300 per hydrant  
Service to Sprinkler System 65 \$2 per head

**CITY OF GALLATIN, TENNESSEE**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Fiscal Year	Governmental Activities					Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	Sales					Certificates of Participation							
	General Obligation Bonds	Industrial Rev and Tax Bonds	Tax Incremental Bonds	Lease Revenue Bonds	Special Assessment Bonds	Water Bonds	Term Loan Payable	Capital Leases					
2006	3,510,000	-	-	-	-	8,445,000	-	-	-	11,955,000	40831.31%	\$ 499.85	
2005	4,175,000	-	-	-	-	8,940,000	-	-	-	13,115,000	45946.61%	\$ 548.35	
2004	4,925,000	-	-	-	-	9,430,000	-	-	-	14,355,000	52371.40%	617.95	
2003	6,359,490	-	-	-	-	4,428,309	-	-	-	10,787,799	40816.49%	464.39	
2002	7,214,645	-	-	-	-	4,754,755	-	-	-	11,969,400	46222.82%	515.26	
2001	7,951,667	185,000	-	-	-	5,029,334	-	-	-	13,166,001	54114.27%	566.77	
2000	7,436,680	355,000	-	-	-	5,298,321	-	-	-	13,090,001	54612.21%	636.95	
1999	8,049,035	510,000	-	-	-	5,360,966	-	-	-	13,920,001	60991.11%	677.34	
1998	8,559,810	655,000	-	-	-	5,910,191	-	-	-	15,125,001	68771.89%	735.97	
1997	4,748,873	790,000	-	-	-	1,436,098	-	-	-	6,974,971	35861.03%	339.40	

**Note:** Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
See page 71 for personal income and population data. These ratios are calculated using the personal income and population for the prior calendar year.

**CITY OF GALLATIN, TENNESSEE**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

Fiscal Year	General Bonded Debt Outstanding (000 omitted)			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Redevelopment Bonds	Total		
1997	5,539	\$ -	5,539	2.16%	\$ 0.27
1998	9,215	-	9,215	3.45%	0.45
1999	8,559	-	8,559	2.67%	0.42
2000	7,792	-	7,792	2.22%	0.38
2001	7,021	-	7,021	1.91%	0.30
2002	6,210	-	6,210	1.59%	0.27
2003	5,467	-	5,467	1.33%	0.24
2004	4,925	-	4,925	0.98%	0.21
2005	4,175	-	4,175	0.81%	0.17
2006	3,510	-	3,510	0.52%	0.15

**Note:** Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
The City of Gallatin, TN, has no legal debt limit set by State law or City ordinance.  
See page 60 for property value data.  
Population data can be found on page 71.

**CITY OF GALLATIN, TENNESSEE**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2006**

<u>Governmental Unit</u>	<u>(000's) Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
City of Gallatin	\$ 3,415	100.00%	\$ 3,415.00
Sumner County	129,000	21.97%	28,342.10
<b>Other Debt</b>	-	0.00%	-
Subtotal, overlapping debt			31,757.10
<b>Total direct and overlapping debt</b>			<u><u>\$ 31,757.10</u></u>

**Source:** Assessed value data used to estimate applicable percentages provided by the Tennessee Comptroller of the Treasury website. Debt outstanding data provided by each governmental unit.

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Gallatin. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

\*Assessed Value of Property:

County	\$ 3,058,372,405	
City	671,943,489	\$ 0.2197

See auditors' report.



**CITY OF GALLATIN, TENNESSEE**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

**Legal Debt Margin Calculation for Fiscal Year 2006**

Assessed value	\$ -
Debt limit (XX% of assessed value)	-
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	-
Legal Debt Margin	<u>\$ -</u>

	<u>Fiscal Year</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

**Note:** Currently, neither the State of Tennessee nor the City of Gallatin have a legal limitation on borrowing. The City is only subject to the lenders' debt ratios. In general, the limit would be 20-25% of the budgeted revenues.

CITY OF GALLATIN, TENNESSEE  
Pledged-Revenue Coverage  
Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds				Special Assessment Bonds				Sales Tax Increment Bonds			
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue		Special Assessment Collections	Debt Service		Coverage	Sales Tax Increment	Principal	Interest	Coverage
						Principal	Interest					
1997	\$ 4,599,961	\$ 2,880,803	\$ 1,719,158		\$ -	\$ 502,233	\$ 99,695	\$ -	\$ -	\$ -	\$ -	\$ -
1998	4,806,385	2,833,108	1,973,277		-	525,932	74,794	-	-	-	-	-
1999	4,897,075	2,903,352	1,993,723		-	559,661	279,710	-	-	-	-	-
2000	5,365,606	3,055,059	2,310,547		-	65,353	257,810	-	-	-	-	-
2001	5,362,392	3,271,285	2,091,107		-	268,986	240,282	-	-	-	-	-
2002	5,874,412	3,467,408	2,407,004		-	274,579	228,708	-	-	-	-	-
2003	5,994,631	3,514,308	2,480,323		-	326,444	216,588	-	-	-	-	-
2004	6,656,633	3,509,046	3,147,587		-	328,309	203,193	-	-	-	-	-
2005	7,218,859	3,719,666	3,499,193		-	490,000	320,726	-	-	-	-	-
2006	-	-	-		-	495,000	295,883	-	-	-	-	-

**Note:** Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses. Sales tax increment bonds are backed by the sales tax revenue produced by the sales tax rate in effect when the bonds were issued (2.5 percent) applied to the increase in retail sales in the Commons shopping area since the time.

**CITY OF GALLATIN, TENNESSEE**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>City Population</u>	<u>County Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income (d)</u>	<u>Median Age (a)</u>	<u>County School Enrollment (b)</u>	<u>County Unemployment Rate (c)</u>
2006	23,917 (f)	130,449 (a)	34,696	29,279	35.5	26,111	3.30%
2005	23,917 (f)	130,449 (a)	34,696	28,544	36.5	25,528	4.10%
2004	23,230 (a)	130,449 (a)	34,696	27,410	36.5	24,596	4.70%
2003	23,230 (a)	130,449 (a)	34,696	26,430	35.5	24,069	4.10%
2002	23,230 (a)	130,449 (a)	34,696	25,895	35.5	23,951	3.90%
2001	23,230 (a)	130,449 (a)	34,696	24,330	36.1	23,044	4.50%
2000	20,551 (e)	123,445 (d)	24,807	23,969	33.6	22,792	2.90%
1999	20,551 (e)	123,445 (d)	24,807	22,823	33.3	22,472	2.40%
1998	20,551 (e)	123,445 (d)	24,807	21,993	33.2	22,445	3.40%
1997	20,551 (e)	123,445 (d)	24,807	19,450	33.3	23,130	4.00%

**Sources:** The above information is obtained from the following:

- (a) Census Bureau
- (b) Sumner County School Board
- (c) Tennessee State Department of Labor, Statistical Services
- (d) State Estimate
- (e) Special Census by City
- (f) Special Census by Federal Bureau of Census

**Note:** Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

**CITY OF GALLATIN, TENNESSEE**  
**Principal Employers**  
**Current Year and Nine Years Ago**

<b>2006</b>			
<b>Employer</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Gap Inc.	1,100	1	8.92%
Sumner Regional Medical Center	1,027	2	8.33%
Volunteer State Community College	750	3	6.08%
Rober Bosch Gallatin	385	4	3.12%
R. R. Donnelley & Sons	320	5	2.60%
ABC Fuel Systems	275	6	2.23%
G. F. Office Furniture	240	7	1.95%
Crescent Manufacturing Company	210	8	1.70%
Fleetwood Homes	200	9	1.62%
TVA Gallatin Fossil Plant	185	10	1.50%
	<u>4,692</u>		<u>38.05%</u>

<b>1998</b>			
<b>Employer</b>	<b>Employee</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Sumner Regional Medical Center	725	1	7.21%
R. R. Donnelley & Sons	638	2	6.35%
The Gap	600	3	5.97%
G. F. Office Furniture	300	4	2.98%
Gapco	300	5	2.98%
Fleetwood Homes	300	6	2.98%
Crescent Manufacturing Company	250	7	2.49%
ABC Fuel Systems	240	8	2.39%
Rober Bosch Gallatin	200	9	1.99%
Highland Apparel	150	10	1.49%
	<u>3,703</u>		<u>36.84%</u>

**Source:** Tennessee Department of Labor Workforce & Development and City of Gallatin's Economic Development

**CITY OF GALLATIN, TENNESSEE**  
**Full-Time Equivalent City Government Employees by Function/Program**  
**Last Ten Fiscal Years**

Function/Program	Full-Time Equivalent Employees as of June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Government:										
Mayor's Office										
Planning	4	3	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Finance	6	5	5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City Attorney	5	5	5	5	5	5	5	5	5	5
Recorder	2	2	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personnel	4	3	4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Codes	3	3	3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Economic Development Agency	7	7	5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2	2	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Public Safety:										
Police	75	73	74	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fire	50	50	43	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	41	41	39	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Leisure Services	20	20	19	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Engineering	4	5	5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Public Utilities	64	64	63	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Golf Course	8	8	9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	295	291	280	271	267	267	264	263	270	239

Source: PERSONNEL OFFICIAL  
 \*AUDITS PRIOR YEARS

\* \* \* \* \*

See auditors' report.

**CITY OF GALLATIN, TENNESSEE**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Police										
Physical arrests	7363	8154	7293	4856	5204	5244	4647	3808	1333	1161
Parking violations	1124	1429	1276	1208	1267	1457	1283	1544	1598	1201
Traffic violations	32685	35499	16013	6000	7646	9771	7750	7607	7395	7078
Fire										
Emergency responses	874	756	730	726	761	810	1002	862	770	588
Fires extinguished	76	113	83	101	112	137	125	196	94	163
Inspections	2351	1858	2035	2676	2823	1601	1574	N/A	N/A	N/A
Animal Control										
Animals Restrained	939	997	760	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Highways and Streets										
Street resurfacing (miles)	5.54	2.3	9.2	8.5	8.19	N/A	N/A	N/A	N/A	N/A
Potholes repaired	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Public Works										
Utility cuts repaired	218	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Parks and Recreation										
Athletic field permits issued	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Community center admissions	235,000	225,000	220,000	220,000	220,000	220,000	215,000	210,000	210,000	200,000
Community Service										
Number of organization benefited	15	15	12	12	14	17	17	20	N/A	N/A
Number of services benefited	6	3	3	3	3	4	2	4	N/A	N/A
Environmental Services										
Tons hauled	12278	11041	10950	10518	9949	9793	9975	9201	8991	8662
Water										
New connections										
Water main breaks	39	44	31	55	66	59	76	N/A	N/A	N/A
Average daily consumption (thousands of gallons)	6046	6227	6400	6169	6726	6250	5591	5030	5183	5150
Peak daily consumption (thousands of gallons)	8535	7879	7707	8235	8100	8100	7653	7239	7021	6500
Sewer										
Average daily treatment (thousands of gallons)	4698	5183	5200	5119	4630	4014	3950	4101	4811	4476
Electric										
Average daily consumption (thousands of kilowatt hours)	2,092	2,024	2,089	2,016	1,900	2,025	1,828	1,657	1,545	1,435
Natural Gas										
Average Daily Consumption:										
Summer -April/October (thousands of cubic feet)	3572	3986	3989	4077	3816	3382	3081	2095	2179	2099
Winter-November/March (thousands of cubic feet)	6930	7520	7903	8042	6538	6500	6495	5133	5300	5009
Golf										
Rounds Played	44091	41642	46415	41888	44931	46079	46079	51771	N/A	N/A

**Sources:** Various city departments

**Notes:** Indicators are not available for the general government function.

**CITY OF GALLATIN, TENNESSEE**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone offices	1	1	1	1	1	1	1	1	1	1
Patrol units	59	54	60	58	64	54	46	49	40	40
Fire										
Stations	3	3	2	2	2	2	2	2	2	2
Fire trucks	9	9	7	7	7	6	6	6	5	4
Animal Control										
Trucks	1	1	1	1	1	1	1	-	-	-
Highways and Streets										
Streets (miles)	183.66	182.45	180.11	179.25	176.75	176.75	173.4	170.6	168.8	168.8
Streetlights	3230	3141	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Traffic signals	251	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sidewalks (miles)	29.35	27.6	27.4	27.4	24.5	24.5	8.2	8.2	8.2	8.2
Parks and Recreation										
Acreage	486	486	486	486	486	486	486	486	306	306
Playgrounds	4	4	4	4	4	4	4	4	3	3
Baseball/softball diamonds	19	19	19	19	19	15	15	15	11	11
Soccer/football fields	8	8	8	8	8	8	8	8	0	0
Community centers	2	2	2	2	2	2	2	2	2	2
Volleyball Courts	4	4	4	4	4	4	4	4	4	4
Basketball Courts	4	4	4	4	4	4	4	4	4	4
Picnic Shelters	13	13	11	11	11	11	11	11	11	11
Tennis Courts	9	9	9	9	9	9	9	9	9	9
Horseshoe Pits	9	9	9	9	9	9	9	9	9	9
Fishing Piers	2	2	2	2	2	2	2	2	2	2
Swimming Pools	1	1	1	1	1	1	1	1	1	1
Walking Trail (miles)	2.5	2.5	2.5	1	1	1	1	1	1	1
Disc Golf (holes)	18	18	18	18	18	18	18	18	0	0
Model Airplane Strip	1	1	1	1	1	1	1	1	1	1
Environmental Services										
Refuse Trucks	13	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mobile Toters	10467	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Water										
Water mains (miles)	319	218	213	209	206	202	189	186	181	179
Fire hydrants	1715	1610	1460	1400	1350	1300	1236	1196	1146	1125
Storage capacity (thousands of gallons)	13000	8000	8000	8000	8000	8000	8000	8000	8000	8500
Percent of Water Loss in System	4.26	6.03	8.56	6.25	8.40	8.95	7.79	9.60	11.50	11.00
Sewer										
Sewer mains (miles)	327	178	171	165	163	157	153	148	143	141
Pump Stations	32	33	31	29	26	24	22	20	18	18
Electric										
Natural Gas										
Gas lines (miles)	328	313	305	300	345	335	315	312	307	300
Golf										
Acres	136	136	136	136	136	136	136	136	136	136
Holes	18	18	18	18	18	18	18	18	18	18
Driving Range	1	1	1	1	1	1	1	1	1	1

**Sources:** Various city departments

**Note:** No capital asset indicators are available for the general government.

## **Internal Control and Compliance**



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Certified Public Accountants

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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable City Council and Mayor  
City of Gallatin, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gallatin, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the City of Gallatin, Tennessee's basic financial statements and have issued our report thereon dated December 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Gallatin, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Gallatin, Tennessee's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

- 06-1. Condition:** Within our audit sample of 45 cash transactions for governmental funds, we noted 12 occurrences where money was received at various city offices and not deposited within the three day requirement according to Title 3, Chapter 1, Section 5 of the Internal Control and Compliance Manual for Tennessee Municipalities. Of the sample not deposited timely, deposits were made from 5 to 33 days after receipt.

**Recommendation:** We recommend that the City bring all departments collecting cash into compliance with state regulations.

**Management's Response:** Within thirty days management will identify each receipt point for cash within the City's operations and notify each affected management employee of the "three day rule." Management will further ensure that employees charged with receipting cash are educated regarding the "three day rule." Finally, management will spot check transactions from each of the receipt points to ensure that the "three day rule" is being followed.

- 06-2. Condition:** The internal control design at the golf course is deficient. There is no internal control procedure in place to ensure that only those individuals that have paid for the use of the course are playing.

**Recommendation:** We recommend that the course employ a starter. When the clubhouse sells a round of golf or rental and the sale is completed in the cash register, the player should be given a ticket or tickets for each item purchased (along with their receipt). Those tickets should be presented to the starter to redeem a rental or begin play on the course. In addition, the starter should on occasion audit players on the course to ensure only those with a ticket are playing. In addition, a ticket log book showing the first and last tickets sold that day would also serve as a double check with the cash register and daily cash receipt report the total revenue by source. We recommend that the log book reconciliation be forwarded to city hall daily along with the cash register receipt reports. Finally, we recommend that the cash register be programmed so that the register tape will operate properly to provide an audit trail of all transactions, voids, etc.

*Management's Response:* Management agrees that the internal control design at the golf course is deficient. Management will adopt and implement a protocol that will, *at least*, employ the following controls:

- Mandatory verification that all golfers beginning a round have paid the appropriate fees. While a starter checking player tickets is a viable option, management will also explore other alternatives, after consultation with other municipal golf courses in Tennessee.
- Spot checking of players on the course to ensure that the appropriate fee has been paid, through either course rangers, "turning" players audit, or other viable options used by municipal golf courses in Tennessee.
- Implementation of an additional tracking system, independent of cash register receipts, to verify that each player has paid the appropriate fees. One option is a ticket book; another option is mandatory comprehensive daily tee time logs identifying each individual playing the course that day.
- Programming of the cash register to provide an accurate audit trail of the types of sales occurring at the golf course on a daily basis.
- Daily forwarding of all log books, tee time sheets, register tapes, and other reports to the Finance Department for reconciliation.

**06-3. Condition:** The internal control system in place for city purchasing is not adequate to prevent abuse or violation of purchasing policies set forth by the Tennessee Code Annotated ("TCA"). Currently each department or fund is performing their own purchasing with required approvals from the finance department and mayor's office. During our audit, we noted several compliance violations that are enumerated in item 06-4 below. In addition, we noted that the city's present purchasing policy requires that any item over \$250 have a purchase order (exceptions include contracts, professional services, rental agreements or recurring monthly expenses). Purchases between \$1,000 and \$2,500 require telephone bids and purchases greater than \$2,500 require advertisement and written bids. We believe this policy is the cause of the violations mentioned in item 06-4.

*Recommendation:* We recommend that the city create a central purchasing department with one individual in charge of purchasing for all government functions. An exception might be made for the utility funds which could employ a separate purchasing agent. We further recommend that the City consider adjusting the dollar limits when telephone and written bids are required as recommended by the Comptroller's Office of the State of Tennessee Department of Treasury. We believe central purchasing and a change in purchasing policy limits would improve the internal control process and help to prevent the violations referred to in item 06-4 below.

*Management's Response:* Management agrees that centralized purchasing will help resolve the condition identified above. In the interim, and until funds permit the addition of new personnel, management will consult with the City Attorney to ensure that the City complies with the Municipal Purchasing Act of 1983. Purchasing policy limits should be adjusted and this issue will be presented to the City's governing body for approval within sixty days.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Gallatin, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

- 06-4. Compliance Violation:** During our audit, we noted that the city is not following the purchasing policies and allowable exceptions as described in the TCA. We noted numerous instances in our sampling of city expenses where there was no bid, when a bid was required (one example would be waste management services). We also noted abuse of the sole-source exception provided in the TCA.

*Recommendation:* Refer to our recommendation for item 06-3 above. We recommend that the City follow all requirements of the TCA in relation to purchasing and allowable exceptions.

*Management's Response:* Management will review all purchases over \$2,500 to ensure strict compliance with the Municipal Purchasing Act of 1983. If the governing body chooses to raise this limit, as is permitted by law, management will adjust its review accordingly.

- 06-5. Compliance Violation:** The city is in violation of Sec. 2-191 of the City's charter in failing to present financial information to the governing body on a monthly basis. Without accurate and timely financial information, the City Council cannot make informed financial decisions.

*Recommendation:* We recommend that the City implement a process of closing the financial records and producing financial statements timely on a monthly basis to present to the city council. These financial statements should be in a format that is understandable and usable for making legislative decisions.

*Management's Response:* The Finance Director will bring the City into compliance by presenting formal financial statements on a monthly basis effective immediately.

We also noted certain additional matters that we reported to management of City of Gallatin, Tennessee, in a separate letter dated December 18, 2006.

This report is intended solely for the information and use of the State of Tennessee, Comptroller of the Treasury's office, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Parker, Parker & Associates*

December 18, 2006